

TOGO ECONOMIC UPDATE

UNLOCKING TOGO'S GROWTH POTENTIAL

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EXECUTIVE SUMMARY

Since the onset of COVID-19 in 2020, Togo's economy has shown signs of resilience in the face of shocks but efforts to reduce poverty were frustrated and fiscal space depleted. Togo was able to avoid a recession in 2020, with real GDP growth recorded at 2 percent, before rebounding rapidly to 6.0 percent in 2021, thanks in part to a strong counter-cyclical fiscal policy response. Challenges intensified again in 2022 as Russia's invasion of Ukraine contributed to a sharp uptick in energy, fertilizer, and food prices, while global demand decelerated, and financing conditions tightened. However, growth remained robust at 5.8 percent in 2022 as a significant increase in public spending helped counterbalance the adverse impact of weakening export revenues, rising inflation, and decelerating consumer spending. Low-income households were affected by high food price inflation in 2021-22, but the effect on poverty was offset by sustained economic growth and the benefits accruing to poor households dependent on agricultural income. Global headwinds, high domestic inflation, and growing insecurity in the northern Savanes region have prompted the Government to significantly ramp up emergency spending, leading the budget deficit to a three-decade high of 8.3 percent of GDP, from 4.7 percent in 2022.

Growth in Togo is expected to moderate in 2023 as decelerating public spending and external demand more than offset a recovery in private consumption. Subsiding energy and food price inflation is expected to support a pickup in consumer demand in 2023, but adverse spillovers from a period of pronounced weakness among key trading partners and a retrenchment in public investment should result in growth moderating to 5.2 percent. Tighter financing conditions will also exert pressure on the financing of the fiscal deficit and impact private investment. Shifting financing conditions have already been reflected in a sharp increase in bond yields on regional debt markets and declining subscription rates on Togo's recent sovereign bond issuances. The budget deficit is expected to remain elevated in 2023, at 5.8 percent of GDP in 2023, down about 2.5 ppt from 2022 partly as a result of reduced purchases of security equipment and lower subsidies for fuel and fertilizers.

Growth is projected to stabilize in 2024 before gaining momentum in 2025 as external demand complements an ongoing recovery in private investment and consumer spending. With global demand predicted to remain subdued in 2024 and fiscal consolidation measures continuing amid tight financing conditions, growth in Togo is foreseen to remain broadly unchanged in 2024, at 5.2 percent, before recovering to 5.8 percent in 2025. Private investment and consumer spending are expected to be the main drivers of growth in coming years, while exports will provide an additional boost in 2025 as the global economy is expected to regain strength. The baseline scenario assumes that recent shocks associated with the conflict in Ukraine gradually recede while the tightening of global financing conditions remain orderly. Longer lasting or deeper disruptions to global trade, commodity, and financial markets could have a severe knock-on effect on a small, open, and relatively indebted economy like Togo and further delay efforts to reduce poverty. Additional downside risks include rising security risks and unfavorable weather conditions negatively impacting agricultural output and keeping food price inflation elevated.

Togo's growth potential, however, could stay below pre-crisis levels unless reforms are accelerated. Under a status quo scenario where investment rates (both private and public), human capital accumulation, and labor force participation stays in line with their pre-crisis averages over the medium term, potential growth in Togo could gradually moderate from an estimated 5.4 percent in the late 2010s to about 5.0 percent by 2030, mainly due to slowing demographic dividends. To stabilize the growth potential of the economy around 5.5 percent over the second half of this decade, reforms would need to deliver an increase in the private investment rate by a cumulative 5 percentage points of GDP by 2030, an increase in total factor productivity and human capital growth of an additional 0.2 percentage points per year, and an increase in female labor force participation by a cumulative 1.5 percentage points. This is an attainable outcome under the reform momentum already initiated with the government's 2025 Roadmap, but will need to occur against the backdrop of ongoing fiscal consolidation efforts needed to bring public debt on a more sustainable trajectory, emphasizing the importance of mobilizing private capital to modernize the economy and improve connectivity infrastructures, and of boosting tax revenues and reducing regressive transfers and subsidies to rebuild fiscal space.

A scenario where Togo is able to combine far-reaching reforms with smart fiscal consolidation could yield substantial opportunities for faster growth and poverty reduction. To boost potential growth to around 7 percent over the remainder of this decade, consistent with government's target, Togo would need to ensure that coordinated structural reforms deliver a 10 percentage point of GDP increase in the private investment rate by 2030. Such acceleration constitutes a significant challenge as it would surpass best historical outcomes among aspirational peers and likely cause a build-up of private indebtedness. However, if combined with measures boosting aggregate savings and productivity, this could lead to large welfare gains, with real income per capita levels increasing by 43 percent from 2023 to 2030, nearly doubling gains compared with the status quo scenario. Such acceleration in potential growth would require untapping the potential of key strategic sectors such as agribusiness, light manufacturing, trade, and logistics. Swift implementation of the African Continent Free Trade Agreement and the development of efficient and competitive voluntary carbon credit markets could be among the important catalysts for new foreign direct investments in those sectors. Improving access of vulnerable populations to education, health care, and social protection systems would also be key to improve their individual welfare, resilience to shocks and productivity.

Trade openness and foreign direct investment are key enablers for small open economies like Togo, but both have been on a downward trend over the last decade. Togo still has a large untapped potential in this area as it benefits from a favorable geographical position in the region, the deepest seaport in the region and one of the best performing on the continent, revealed comparative advantages in resource based sectors which could be used to diversify and upgrade its exports and better integrate into regional and global value chains. Yet, developing a stronger export base for agriculture and agri-food products would require substantial improvements in access to key production inputs, which are largely imported, and improved access to export markets, particularly among neighboring countries. The facilitation of small-scale cross-border trade (SSCBT) would be particularly important in this regard, as almost all exports of agricultural products from Togo to its neighbors are undertaken through SSCBT, as well as about 70 percent of agricultural imports. The development of light manufacturing, including textile and clothing, could also create significant opportunities for job creation in both rural and non-rural areas and help Togo move from exporting just a few commodities to a broader, more diversified product portfolio. The development of such sectors requires robust transport infrastructures and logistics services to untap regional markets, reliable energy provision, as well as access to inputs and technology that can help increase productivity and competitiveness. However, security risks in the sub-region could adversely impact trade flows with the neighboring Burkina Faso and Niger and eventually deter private investments to expand the critical Lomé-Ouagadougou-Niamey (LON) economic corridor. In addition, significant investments in other regional ports, notably in Ghana and Benin, are increasing competition for the Port of Lomé and might erode its market share over time. Reforms to increase the competitiveness of the Port of Lomé and the LON corridor are therefore particularly timely.

The implementation of the African Continent Free Trade Agreement (AfCFTA) could be an important catalyst for change. The AfCFTA is expected to generate substantial benefits for its members through the alignment of trade, investment, and competition policies. Benefits from lowering non-tariff barriers would be particularly significant, notably through regulatory harmonization. Evidence from a gravity model presented in this report suggest that AfCFTA could significantly improve Togo's attractiveness for foreign direct investment, potentially leading to a near doubling of the stock of FDI by 2035. Intensifying regulatory reforms and efforts to improve trade facilitation will be particularly critical to support such trend. Given the importance of small-scale cross-border trade (SSCBT) for regional integration, particularly in the agriculture sector, impediments to such trade should be specifically addressed and data on SSCBT improved to support evidence-based decision making. AfCFTA will support small-scale cross-border trade by implementing simplified trade regimes (STR) and reducing tariffs on intra-African trade. STR simplifies clearing goods through Customs, so small-scale cross-border traders can benefit from import duty exemptions.

Summary of key policy options

Objective	Policy options
Boost agriculture productivity and resilience	<ul style="list-style-type: none"> • Improved land tenure security over individual and communal lands and increased efficiency and transparency in land administration services. • Implementation of irrigated, mechanized and climate-smart agriculture through the Planned Agriculture Development Zones (ZAAP).
Improve access to affordable electricity	<ul style="list-style-type: none"> • Improved performance and accountability mechanisms for the Compagnie Energie Electrique du Togo (CEET) and the Agence togolaise d'électrification rurale et des énergies renouvelables (AT2ER). • Updated tariff structure for electricity to better protect the poor, support decentralized renewable energy solutions, maintain industrial competitiveness and ensure sustainable revenues for CEET.
Strengthen transport connectivity	<ul style="list-style-type: none"> • Single transit guarantee and elimination of controls along Lomé-Ouagadougou-Niamey corridor, and professionalization of carriers. • Improved rural transport infrastructure to enhance connectivity across the country • Updated concessions, institutional arrangements, and rules for storage and unbundling at the Autonomous Port of Lomé.
Facilitate regional trade	<ul style="list-style-type: none"> • Simplified border clearance procedures and improved information systems at the border. • Simplified trade regimes and reduced tariffs on intra-African trade under AfCFTA to support small-scale cross-border trade.
Boost human capital	<ul style="list-style-type: none"> • New social registry to improve the targeting of social protection and disaster response systems. • More equitable distribution of quality teachers and health service providers across the territory. • Implementation of anti-discrimination rules on women's access to labor markets, land ownership, finance, and services.
Restore fiscal space	<ul style="list-style-type: none"> • Implementation of the Tax Policy Unit (UPF) action plan aimed at rationalizing inefficient tax expenditure and reinforcing reporting obligations for companies benefiting from derogatory regimes. • Orientation of fiscal policy towards the taxation of consumer products harmful to health by extending the excise tax base and raising rates. • Implementation of the OTR's action plan to strengthen tax compliance based on new tax census data, and to steer management towards an efficient, competent and non-corrupt tax administration. • Automatic fuel price mechanism to reduce regressive subsidies. • Greater transparency on the financial health of State-Owned Enterprises and better management of public guarantees and on-lending operations.

Acronyms and Abbreviations

AfCFTA	African Continental Free Trade Agreement
BCEAO	Central Bank of West African States
CEB	Communauté Electrique du Bénin
CEET	Compagnie Energie Electrique du Togo
ECB	European Central Bank
GDP	Gross Domestic Product
GHG	Greenhouse Gas
INSEED	Institut National de la Statistique et des Etudes Economiques et Démographiques
NTBs	Non-Tariff Barriers
RCAI	Revealed Comparative Advantage Index
SOE	State-Owned Enterprise
SSCBT	Small-Scale Cross-Border Trade
TFP	Total Factor Productivity
TRIST	Tariff Reform Impact Simulation Tool
UNECA	United Nations Economic Commission for Africa
WAEMU	West African Economic and Monetary Union
WITS	World Integrated Trade Solution

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CHAPTER I – REVIVING GROWTH THROUGH UNCERTAIN TIMES

1. INTRODUCTION

Since the onset of the COVID-19 pandemic in 2020, Togo has faced significant headwinds that have brought new economic uncertainties and have held back progress with poverty reduction. These shocks range from global trade disruptions associated with the pandemic, the fallout from the war in Ukraine on energy and food prices, growing terrorist threats, slowing external demand and tighter financing conditions. While growth has been resilient, notably thanks to a significant increase in public spending, rising inflation has hampered poverty reduction while fiscal space was depleted as budget deficits and public debt increased rapidly. While external factors have been the main cause of recent challenges, disparities in economic opportunities and access to basic services across the country are also contributing to fragility risks and prevents Togo from realizing its full potential. Climate change is amplifying these risks as most exposed populations live in underserved rural areas where the incidence of poverty is more than twice that in urban areas. In other parts of the country, land degradation is also negatively impacting agriculture productivity.

Ensuring broad-based economic opportunities and increasing the resilience of vulnerable population to shocks are among the key policy priorities moving forward. Togo was able to maintain robust growth through difficult times thanks to a strong countercyclical fiscal policy response but will now need to untap large scale private investments in key sectors such as agriculture, light manufacturing, trade, and logistics to support the momentum in coming years. Efforts to mitigate the impact of the climate change could mobilize additional investments to improve natural resource management and create economic opportunities for a more balanced development of rural and urban areas. Boosting human capital will be another critical objective to improve inclusiveness and sustainability. Key priorities are to strengthen learning opportunities and improve access to effective health care services in underserved areas, ensure more effective social protection systems, support women and girls' empowerment and boost financial inclusion. Rebuilding the necessary fiscal space to support high quality public services will require greater revenue mobilization, more targeted transfers and subsidies and reduced exposure to contingent liability risks.

2. PRE-PANDEMIC TRENDS AND CHALLENGES

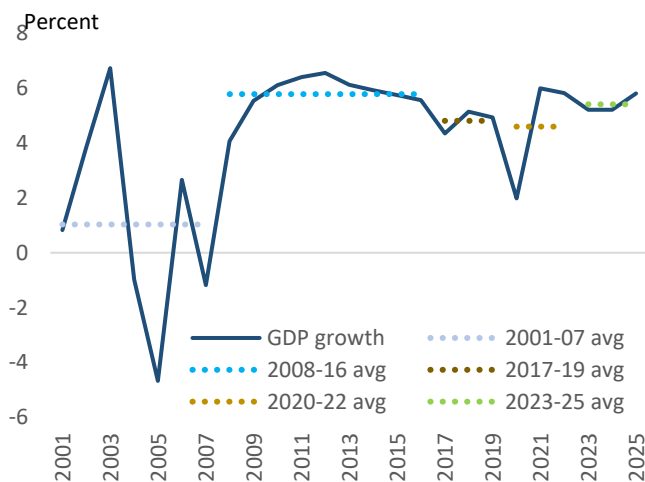
Togo benefited from robust growth prior to the COVID-19 pandemic and had regained some fiscal space thanks to budget consolidation and debt restructuring efforts. Since the late-2000s, Togo entered a period of sustained economic expansion supported by economic reforms, infrastructure spending, and the reengagement of both development partners and private investors, which pushed up growth to an average of 5.7 percent over the period 2010-16 (Figure 1.1). The growth spurt, which was largely driven by infrastructure investments and the expansion of services sector activity in connection to the boom in port activities, investments in the telecommunications sector and the banking sector, was also accompanied by a significant buildup of both public and private debt. Concerns about fiscal sustainability led the government to change course and undertake significant fiscal consolidation measures from 2017 to 2019, with public investment and debt levels being substantially scaled back and expensive domestic debt being replaced by cheaper external debt (Figure 1.2). At the same time, business climate reforms (including measures easing business and property registration, dealing with permits, getting electricity, and trading across borders) supported dynamic private investment and helped maintain real GDP growth at an average of 4.8 percent over the 2017-19 period.

Togo's poverty rate has been declining prior to the COVID-19 crisis but was still elevated. Growing activity in agriculture and services sectors, which employ 65 percent and 25 percent of the poor respectively, contributed to the overall poverty rate declining by approximately four percentage points between 2015 and 2019, to reach 45.5 percent according to the national poverty line. However, poverty incidence remains higher than most other regional peers, reflecting still relatively low GDP per capita as well as large geographic and demographic disparities (Figure 1.3). In fact, poverty is still significantly higher in rural areas at 58.7 percent (national definition), versus 26.5 percent for urban dwellers, and reaches a peak of 65 percent in the Northern Savanes region (Figure 1.4). Non-poor rural households are also much more at risk of falling into poverty given their higher exposure to shocks. While it is

estimated that 64.9 percent of the population in Togo is either poor or at risk of falling into poverty, this ratio reaches 83 percent in rural areas. Most exposed households have few formal coping mechanisms, with less than 1 percent of households reporting having received government assistance following a shock. Evidence also suggests a particularly strong connection between education levels and poverty and inequality in Togo, with low levels of intergenerational mobility. Moreover, individuals from households in which the only adult is a woman display poverty rates that are more than double of those with one adult male. Inequality, measured by the Gini coefficient, was estimated at 38.1 in 2018-19, the highest among WAEMU countries, with the exception of Burkina Faso.

Figure 1.1: Growth was robust prior to the COVID-19 pandemic, and mostly resilient since then

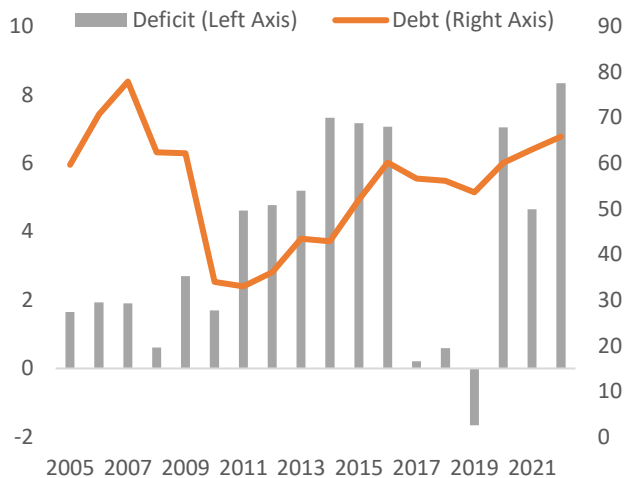
Real GDP growth (percent)



Source: BCEAO, DGEAE, INSEED, and World Bank

Figure 1.2: Fiscal buffers have been depleted by anti-crisis measures since 2020

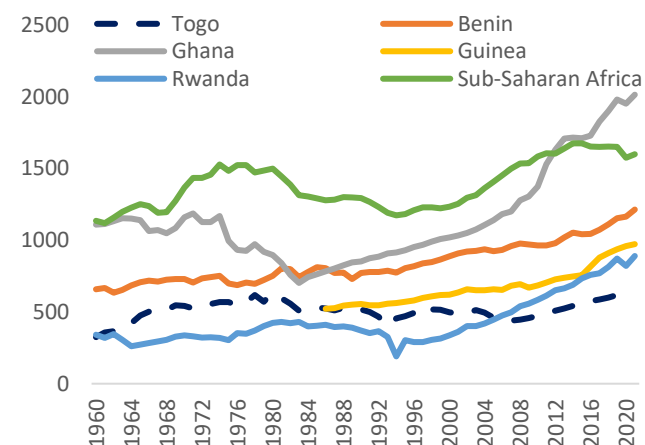
Budget deficit and public debt (% of GDP).



Source: IMF and World Bank

Figure 1.3: Living standards in Togo remain lower than most regional peers

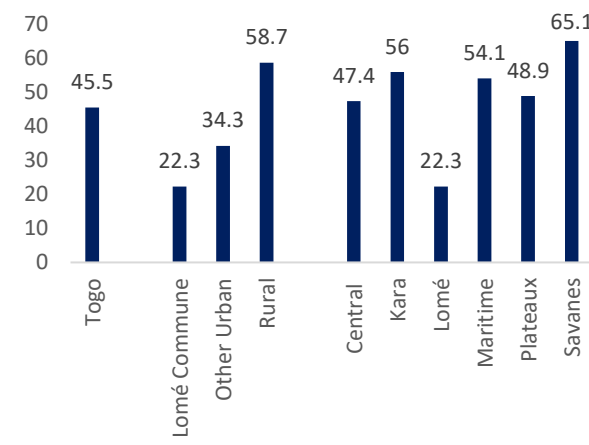
GDP per capita (constant 2015 USD)



Source: World Bank

Figure 1.4: More than half of the population in rural areas lives under the national poverty line

Poverty rate by regions (percent)



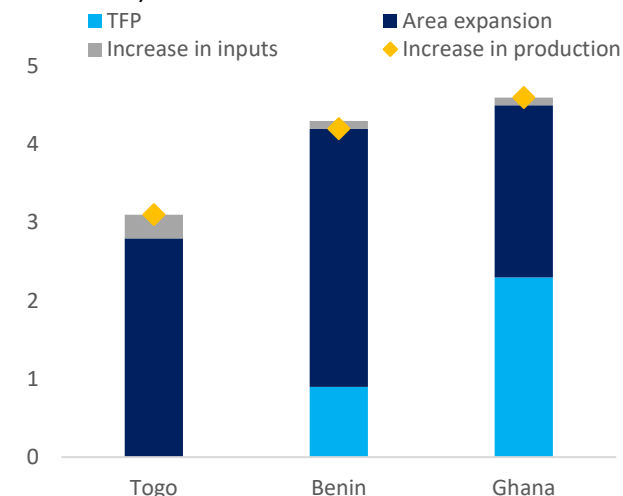
Source: INSEED, World Bank

The agricultural sector remained constrained by long-standing structural challenges. Two-thirds of rural households and 71 percent of the poor in Togo are categorized as agricultural households, yet the agricultural sector faces multiple constraints that limit productive investment and commercialization, leading to insufficient opportunities to raise living standards in rural areas. Adoption of yield-enhancing technologies is limited, with only 37 percent and 8 percent of agricultural households, respectively, using fertilizer and improved seeds and barely 1 percent using irrigation. Overall, the share of commercialized agricultural output is only 20 percent. In this context, the expansion of agriculture production since the mid-2000s (3.6 percent per year on average) was mainly extensive rather than intensive (driven by increases in cropped area rather than efficiency gains), which contributed to

deforestation and soil degradation (Figure 1.5). Total factor productivity in the agriculture sector has been declining over the last decade and is barely higher than in the early 1960s (Figure 1.6). With the agriculture sector dominated by traditional rainfed farming practices, variable rainfalls observed in recent years have also had an adverse impact on more exposed rural populations. With a scarcity of human and produced capital, the valorization of natural capital remains key to accelerate structural transformation and reduced poverty, particularly in more vulnerable rural areas.

Figure 1.5: Agriculture growth has mostly been driven by an expansion of cropped areas

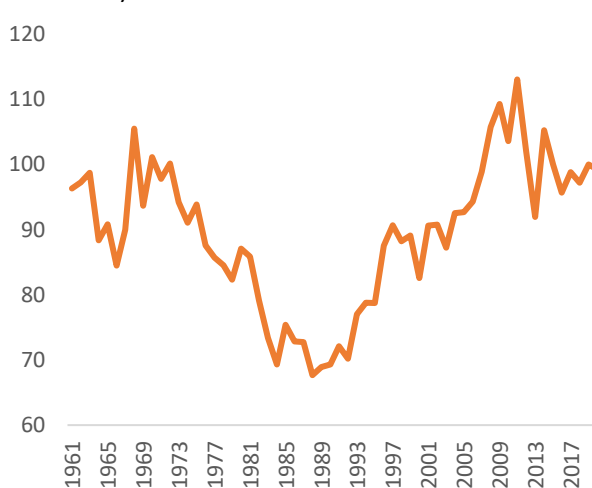
Source of growth in agriculture (percentage point, 2000-2016)



Source: World Bank

Figure 1.6: Efficiency gains in agriculture production has been limited over the last two decades

Total factor productivity levels in agriculture (2015=100)



Source: USDA

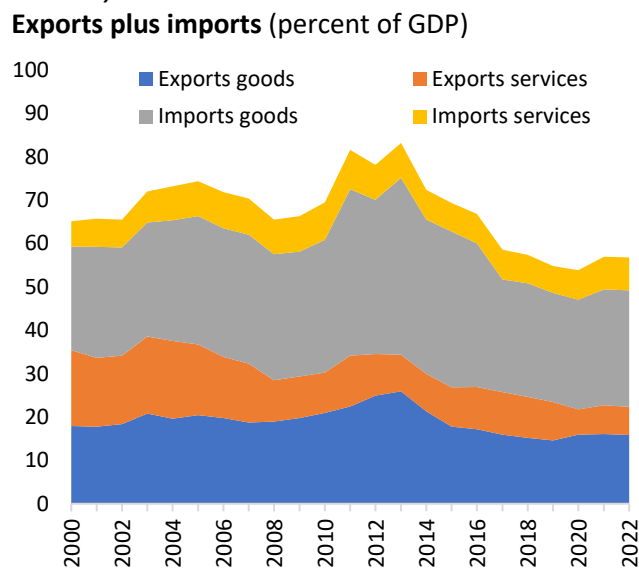
Note: Total factor productivity measures the efficiency of agricultural production obtained from all land, labor, capital and material resources used.

The government’s industrialization policy has helped trigger private investments and growing activity in light manufacturing and agribusiness. The industrial sector was traditionally driven by the mining sector, especially phosphate processing, accounting on average for more than 20 percent of GDP during the decades prior to the 2000s. Yet, due to the collapse in phosphate production in the 2000s, on account of sectoral governance constraints compounded with sharp fluctuations in the market price of the phosphate, the share of industry in GDP fell to about 15 percent, reducing its contribution to growth from 0.8 percentage point to 0.2 percentage point during the period. However, recent improvements in electricity production have stimulated light manufacturing in food and beverage products. Moreover, Togo is tapping into its large limestone reserves to produce clinker and cement. As a result, industrial production has been rising since 2010, leading to a gradual increase in the sector’s contribution to growth. The rise in industrial production has been related to cross-border investment that also accrued over the past two decades in areas like chemical production and cement manufacturing.

Despite a significant potential to become a regional trade hub, trade openness has declined over the last decade. Exports did not play a major role in Togo’s pre-COVID growth spurt, with the degree of trade openness declining over time (Figure 1.7). Exports receipts have historically relied on cotton and mining sectors, which have performed poorly during the pre-COVID period (see Chapter 2 for a more detailed discussion). Reexport trade, transit to landlocked neighbors, and more recently maritime transshipment since the inauguration of the Lomé Container Terminal in 2014, all play an important role in Togo’s economy, underscoring the relevance of trade-related services and geography in Togo’s integration in the region and the global economy (Figure 1.8). Numerous products originating from or destined to neighboring countries (Burkina Faso, Ghana, Benin) pass through Togo before being exported to their destination markets. To some extent, such trade may simply reflect arbitrage between distortions

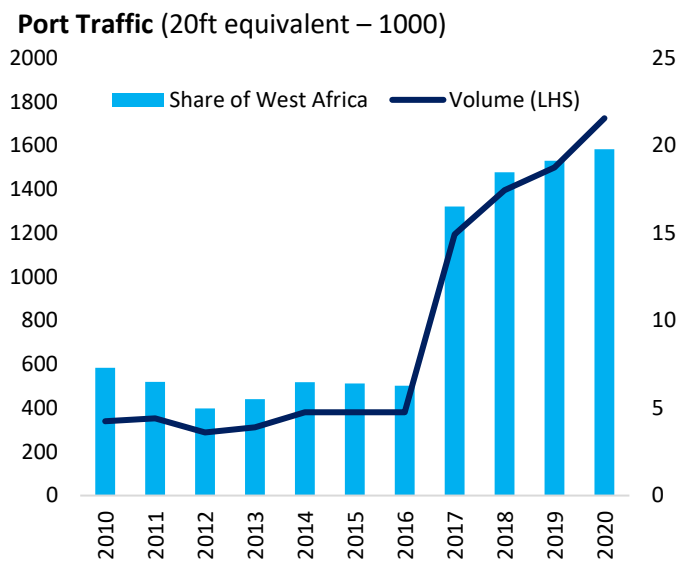
arising in different markets, but it also reflects Togo’s ability to provide logistics and transport services (transit, transshipment), as well as trading services (e.g., for oil and some agricultural crops). Beyond trade-related services, Togo’s economy has also developed a strong regional banking and air transport sector.

Figure 1.7: Trade openness has been declining since the early 2010s



Source: World Bank

Figure 1.8 : ...despite growing activity in the Port of Lomé

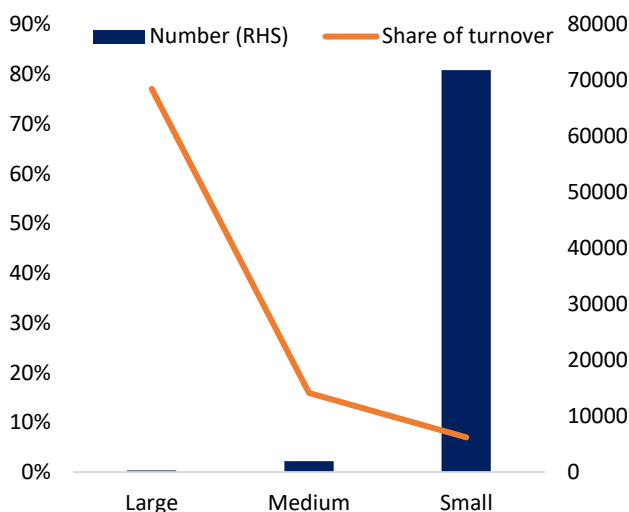


Source: USDA, World Bank Port Authority of Lomé

The private sector remains fragmented and dominated by very small and informal firms. The high concentration of the private sector is reflected in the fact that only 0.4 percent of firms account for more than 77 percent of the total reported turnover in Togo (Figure 1.9). In fact, only a little over 2,000 firms in Togo have an annual turnover above USD 100,000, and only 300 of them have a turnover exceeding USD 1.7 million. The largest companies are found in the banking sector, industry, agrifood, services (insurance, hotel, logistics, port handling), mining, construction, public works and commerce. The region of Lomé contains more than 60 percent of firms and 71 percent of formal employment, and generally firms tend to be located more towards the Southern part of the country. About 90 percent of workers are in the informal sector, with the sector contributing an estimated 35 percent of Togo’s GDP.

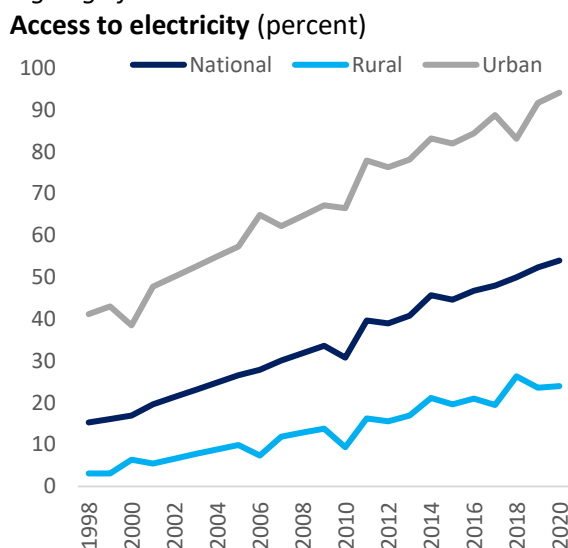
Constrained access to infrastructure, skills and finance continue to stifle productivity and job creation. While a significant increase in public investment helped upgrade Togo’s transport infrastructure, the quality of the secondary road network is still a significant constraint to structural transformation, holding back strategic sectors like agriculture and logistics and limiting the development of secondary cities. Togo’s electrification rate has also improved, reaching 50 percent in 2019 (Figure 1.10), but access in rural areas is low and significantly lagging regional peers, while access to the internet is patchy and unaffordable for a majority of the population. Difficulties in finding skilled workers represent another key constraint to private sector growth at a time when a sizeable share of the labor force remains under-employed. The lack of health insurance and proper social protection can also contribute to lower and more volatile productivity. Overall, growth in Togo has mostly been driven by capital accumulation associated with large public and private investment projects, but these have led to limited gains in overall productivity and employment levels due to above mentioned constraints.

Figure 1.9: The private sector is highly concentrated
Business demographics



Source: INSEED, World Bank

Figure 1.10: Access to electricity has improved but lags significant behind in rural areas



Source: World Bank

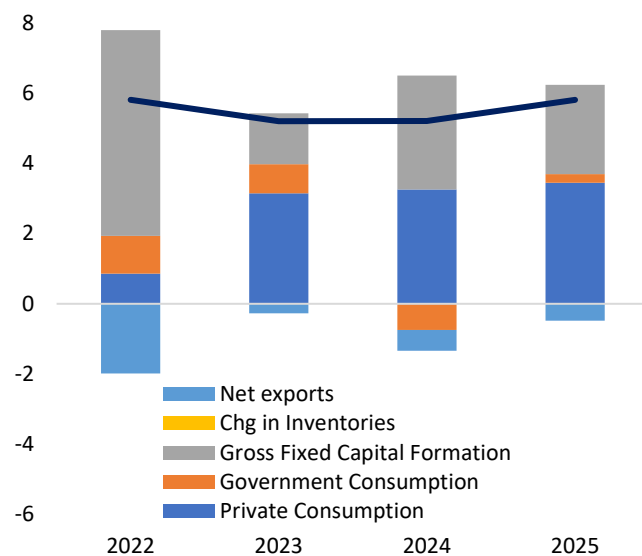
3. IMPACT OF SEQUENTIAL SHOCKS SINCE THE COVID-19 PANDEMIC

The COVID-19 pandemic was a setback for Togo’s development, but unlike many other countries in Sub-Saharan Africa, it managed to avoid a recession and quickly recovered thereafter. Togo escaped an outright recession in 2020, with growth reaching 2.0 percent in 2020 (-0.4 percent in per capita terms), partly as a result of a strong fiscal policy response, with public expenditure increasing by 7.1 percentage points of GDP in one year. Continued demand and rising prices of some of Togo’s commodities over also helped soften the adverse effects of the pandemic on the economy. As part of the crisis response, the government set up a new cash transfers system (NOVISSI) which reached 581,000 vulnerable people through mobile money wallet and constituted an important backstop of most vulnerable households. However, the poor performance of agriculture and services sectors, which together employ nearly 90 percent of the labor force, combined with disruptions to local and global food systems undermined households’ ability to meet their basic needs. This, together with social distancing measures, resulted in a sharp contraction in private consumption and an increase in the national poverty rate to 45.3 percent in 2021, up from 45.1 percent in 2019. The budget balance shifted from a surplus in 2019 to a deficit amounting to 7 percent of GDP in 2020 and led public debt to rise from 53.6 percent of GDP in 2019 to 60.1 percent of GDP in 2020. In 2021, growth rebounded to 6.0 percent, notably supported by a recovery in private consumption and a sharp increase global demand driven by a synchronized upturn across major economies. At the sectoral level, services activity posted a significant rebound after the pandemic, while industry was lifted by the strength of the global economy, but agriculture output continued to increase at a modest rate. The fiscal deficit narrowed to 4.7 percent of GDP in 2021, mostly driven by a recovery in tax revenues and a reduction in capital spending following the sharp increase in the previous year.

Growth remained resilient in 2022 despite disruptions from the war in Ukraine contributing to a sharp uptick in energy, fertilizer, and food prices and a deceleration in global demand. Real GDP growth is estimated to have slowed only marginally to 5.8 percent in 2022, as a new uptick in public spending helped offset a significant deceleration in export revenues and consumer demand as inflation reached 7.6 percent, its highest level since 2008 (Figure 1.11). Increased energy and fertilizer costs adversely impacted the agriculture sector, but favorable rainfall patterns contributed to strengthening production compared with 2021. Rising inflation combined with growing insecurity in Northern regions have prompted the Government to significantly ramp up emergency spending, including fertilizer and fuel subsidies and military equipment purchases, which together with ongoing infrastructure projects and higher public sector wages led to a ballooning deficit (Figure 1.12). Weakening external demand and

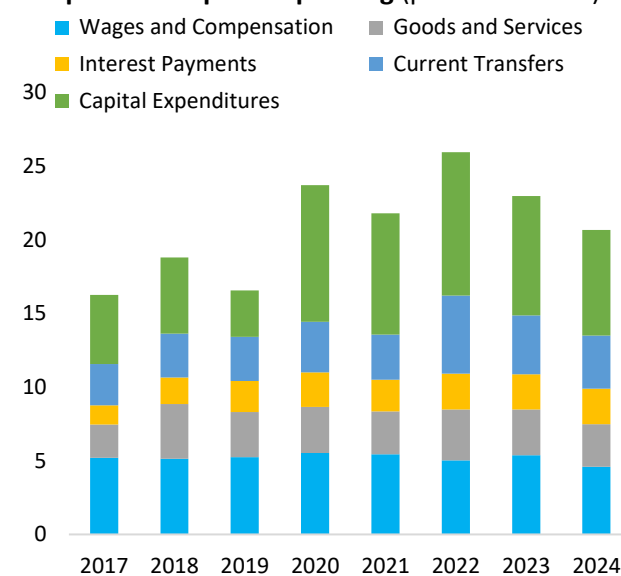
rising import prices for crude oil, wheat, and rice have also contributed to a growing trade deficit, but this was partially offset by a sharp uptick in the price of phosphate and cotton supporting export revenues.

Figure 1.11: Private consumption has been significantly impacted by rising inflation in 2022
Contribution to real GDP growth (percentage point)



Source: INSEED, DGEAE, World Bank

Figure 1.12: An uptick in public investment and transfers helped buffer the slowdown
Composition of public spending (percent of GDP)

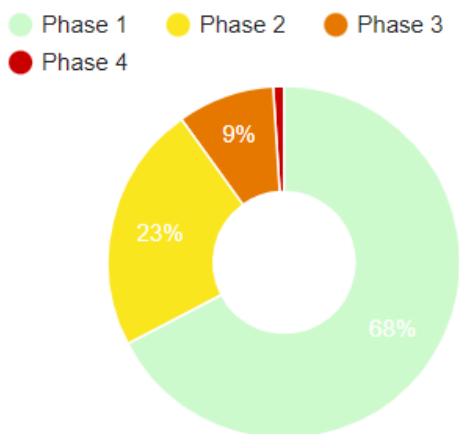


Source: Ministry of Economy and Finance, World Bank

Agriculture production improved in 2022 despite disruptions in the price and availability of inputs. Adequate rainfall amounts allowed a timely start of planting activities in March 2022 in the south and in May 2022 in the north. Cumulative rainfall amounts were overall favorable and supported crop development across most parts of the country, resulting in average to above-average vegetation conditions. The aggregate cereal production in 2022 was slightly above the previous year’s level and about 6 percent higher compared to five-year average, reflecting the increase in planted area, while overall agricultural output is estimated to have increased by 5 percent in 2022, despite rising inputs costs and disruptions to fertilizer markets. Government support was significant during 2022, including through the distribution of inputs at subsidized prices and scaled up presence of security forces in Northern regions to facilitate farmers’ access to land. Despite signs of resilience in crop production, the number of people facing acute food insecurity (CH Phase 3 and above) increased significantly in 2022 due to rising food prices (Figure 1.13 & 1.14).

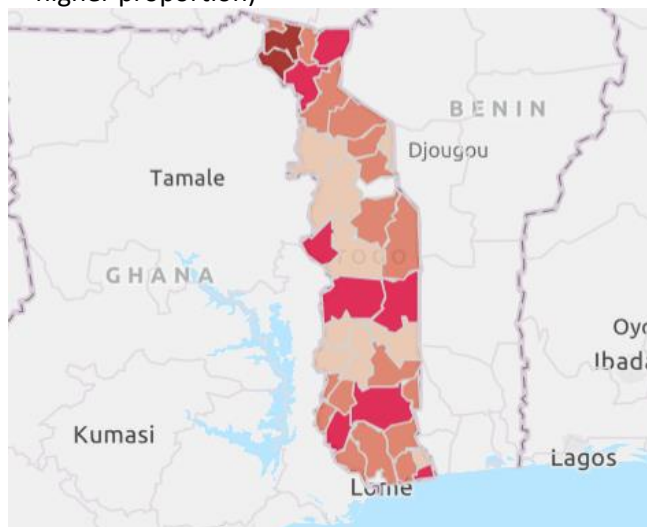
Fragility risks have increased in the Northern Savanes region amid growing insecurity. Cross-border spillovers from insecurity in the Sahel region are the main factor behind growing insecurity in the region bordering Burkina Faso, but large discrepancies in development outcomes with wealthier urban areas and coastal regions are also an aggravating factor. In this context, new patterns of violence and instability have emerged with pockets of insecurity from the spread of violence and terrorist attacks in the North. Togo experienced its first targeted terrorist attack in November 2021 in Sanloaga. The state of emergency has been maintained due to continued terrorist threats.

Figure 1.13: Food insecurity has increased
Population facing food insecurity in December 2022
 (percent)



Source: GAFS, World Bank

Figure 1.14: ...and is particularly prevalent in Northern regions
Intensity of food insecurity in December 2022 (darker = higher proportion)

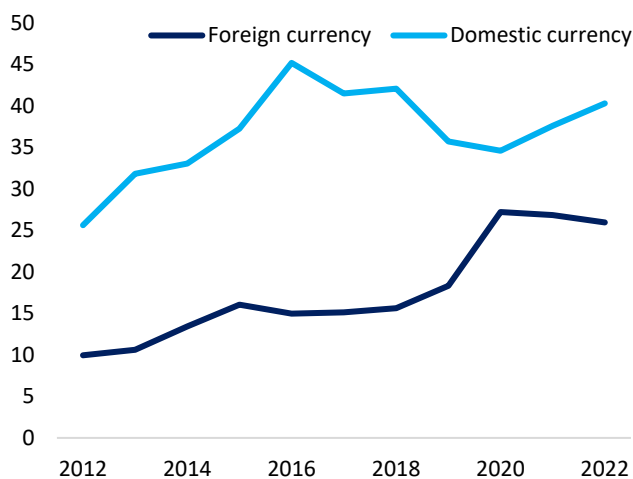


Source: GAFS, World Bank

Fiscal buffers have been depleted by the government’s crisis response. Emergency measures have led to a near three-decade high budget deficit of 8.3 percent of GDP in 2022. Support measures included higher subsidies for fertilizers and fuel prices, public-sector wage and pension increases, and new military and security spending. Rising fiscal financing needs since the outset of the crisis have mostly been met through regional bond markets and domestic commercial lending, and to a lesser degree from external concessional borrowing. On the regional and domestic front, gross financing reached a record of 12.1 percent of GDP in 2022, mostly from regional bond issuances, which translated into net flows of 7.1 percent of GDP as domestic debt repayment reached 5.0 percent of GDP. Gross external financing amounted to 5.2 percent of GDP, which translated to net flows of 3.7 percent as external debt repayment reached 1.5 percent of GDP. The composition of the debt portfolio has improved in recent years, thanks to early repayment of the most expensive domestic obligations and the reclassification of loans from domestic to external debt with the support of development partners (Figure 1.15), but domestic currency debt still accounted for around 80 percent of interest payments and almost 90 percent of principal repayment in 2022 (Figure 1.16).

Figure 1.15: Domestic debt resumed its upward trend since 2020

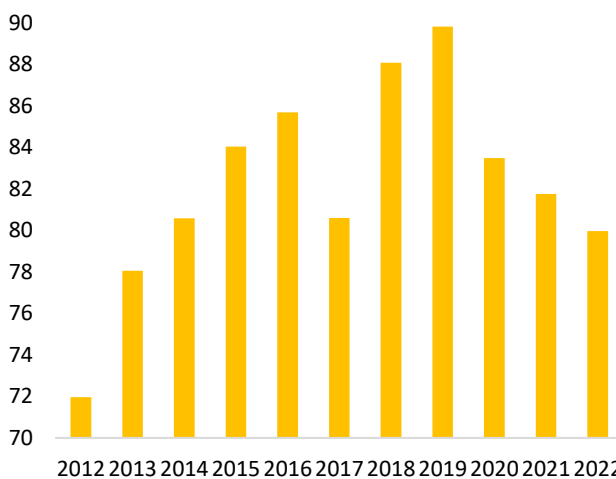
Foreign and domestic currency debt (percent of GDP)



Source: IMF and World Bank

Figure 1.16: ...but the share of domestic debt service costs has moderated

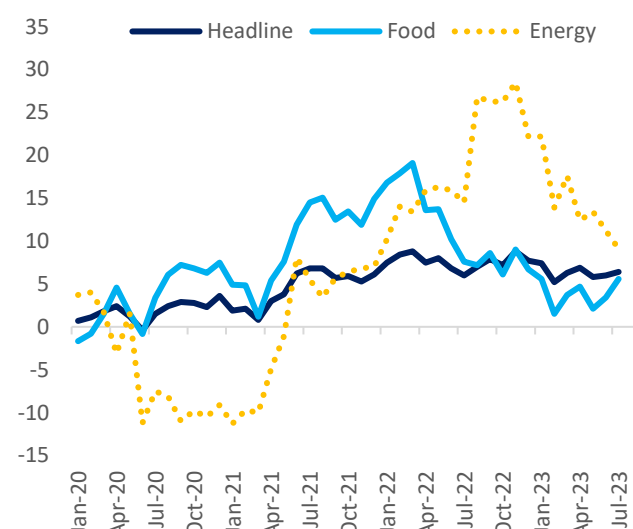
Share of domestic debt service costs (percent of total)



Source: IMF and World Bank

Figure 1.17: Inflation reached a three-decade high in 2022

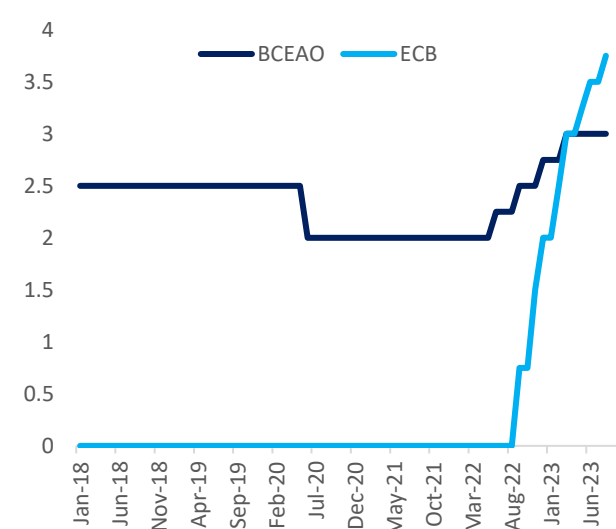
Inflation (percent)



Source: World Bank

Figure 1.18: Monetary policy has been tightening only gradually in WAEMU

Policy interest rate of BCEAO and ECB (percent)



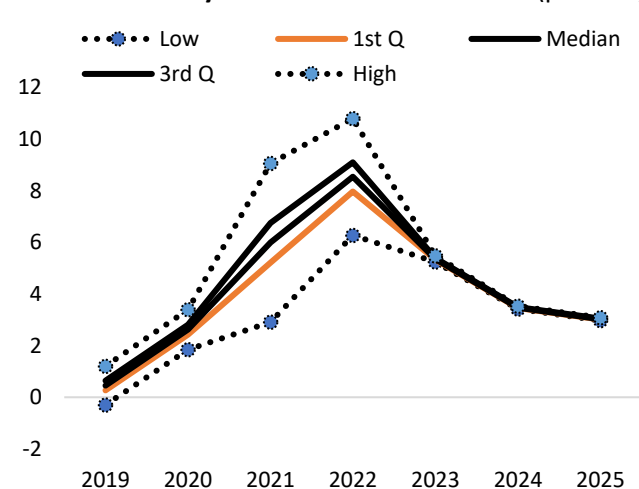
Source: BCEAO, World Bank

Togo's inflation rate significantly overshoot expectations in 2022. Consumer price inflation reached 7.6 percent in 2022, its highest level since 2008. While domestic food prices have been the most important driver of inflationary pressures, the rising cost of imported goods played an increasing role during 2022. External price pressures tapered towards the end of the year as global commodity prices started to retrench. However, second-round effects on domestic value chains kept headline inflation above 7 percent through the year's end (Figure 1.17). Elevated energy prices have translated into rising transport and housing costs, which is reflected in core inflation remaining above 6 percent. To counter inflation across the sub-region, the Central Bank of West African States (BCEAO) has gradually tightened monetary policy, raising policy interest rates by a cumulative 75 basis points in 2022, a significantly slower pace than that of the European Central Bank, which contributed to declining foreign exchange reserves (Figure 1.18).

High food price inflation has disproportionately affected poor households, who spend a larger share of their budget on food. Poor households in Togo spend 52.7 percent of their budget on food compared to 47.7 percent for the non-poor. To assess the true impact of rising prices on household wellbeing, inflation rates for different household categories were constructed based on the specific weights of food and nonfood items in consumption baskets (Figure 1.19). Accordingly, inflation is estimated to have actually increased to 8.5 percent in 2022 for the median household and up to 10.8 percent for lower income households, which is respectively 1.0 and 3.3 percentage points above the official CPI inflation rate. This effect is partially offset by the fact that the majority of poor households depend on agricultural income for their livelihood, hence benefiting to some extent from rising food prices. This combined with sustained growth in income per capita would have enabled the poverty rate to stabilize at 45 percent in 2022, despite significant inflationary pressures (figure 1.20).

Figure 1.19: Price pressures are mostly affecting low-income households

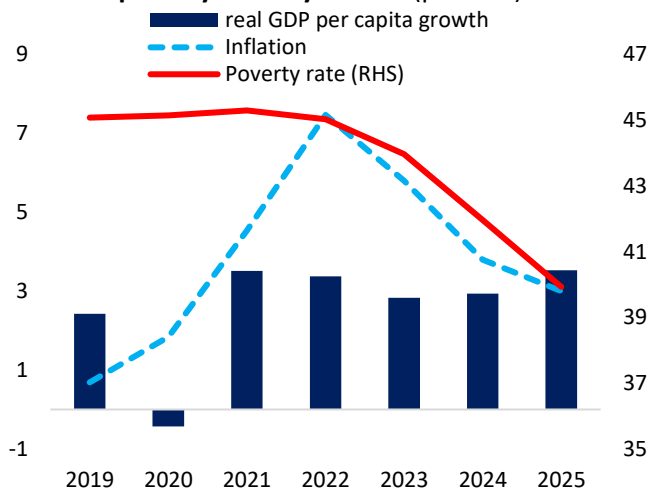
Inflation rates by households' income level (percent)



Source: World Bank. Projections start in 2023.

Figure 1.20: ...likely preventing poverty from declining in 2022 despite robust growth

Extreme poverty and key drivers (percent)



Source: World Bank

The banking sector has been resilient, but a few institutions face risks. After deteriorating during the COVID-19 crisis, the loan portfolio of banks and financial institutions operating in Togo improved in 2021 and 2022. The ratio of past-due loans fell from 16 percent of total loans in January 2021 to 8.1 percent in December 2022, slightly below the WAEMU average. Three of Togo's eleven banks have solvency risks in excess of prudential standards. However, if banks with negative equity are excluded, the solvency ratio stands at 14.3 percent at the end of December 2022, well above the minimum solvency ratio of 11.25 percent. The privatization of state-owned banks, which have historically been undercapitalized, remains a priority. The BTCl privatization process was completed in December 2021, with the sale to IB Holding of 90 percent of the State's shares in the bank's capital. At the end of December 2022, the State's share in IB Bank Togo's share capital will be reduced to 4 percent. Regarding UTB, discussions are underway with potential investors to privatize the remaining state-owned bank.

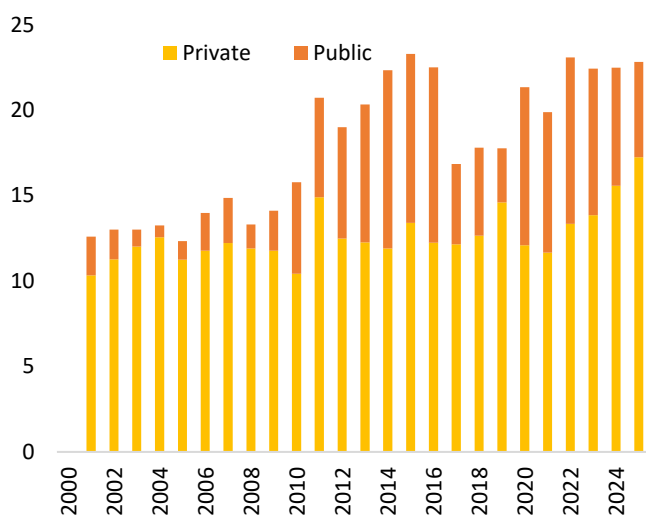
4. ECONOMIC PROSPECTS, RISKS AND CHALLENGES

Growth in Togo is expected to moderate somewhat in 2023 as a projected recovery in consumer spending is more than offset by slowing external demand and tighter financing conditions. Growth is projected to slow to 5.2 percent in 2023, as an uptick in consumer spending driven by subsiding energy and food price inflation is offset by decelerating public spending and modest export growth. On the domestic front, the most significant factor supporting aggregate demand growth will be the expected deceleration in consumer price inflation lifting some of the drag that held back private consumption in 2022. Private investment is also expected to be supported by moderating energy and input costs but will continue to be held back by geopolitical uncertainty linked to a turbulent regional and international backdrop, and tightening financing conditions (Figure 1.21). The decline in public

investment will be significant in 2023, but mostly driven by a reduction in military and security equipment purchases following a sharp uptick in 2022. The fiscal multiplier of such spending is likely small given its limited focus on productive capacity and large import content.

Figure 1.21: A shift from public to private investment should help support growth in coming years

Public and private investment
(percent of GDP)



Source: World Bank

Figure 1.22: Global demand will remain soft in the short term

Global goods and services trade (y-o-y, percent)

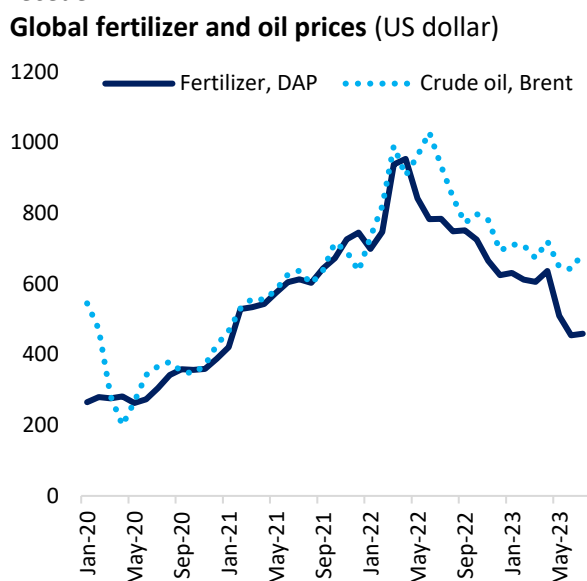


Source: WTOWorld Bank

Global and regional headwinds will continue to weigh on short-term prospects. Shockwaves to the global economy continue to ripple from the war in Ukraine. A small, open economy like Togo is particularly susceptible to adverse spillovers from a period of pronounced weakness in the largest global economies. After softening to 4 percent in 2022, global trade growth is expected to decelerate further to 1.6 percent in 2023 (Figure 1.22), and the demand from the Euro area, Togo’s largest trading partner, is expected to be particularly weak. Crude oil prices are projected to moderate in 2023, driven by slower global demand. Global fertilizer prices should also ease, nevertheless remaining above pre-pandemic levels due to persistently high natural gas prices (Figure 1.23).

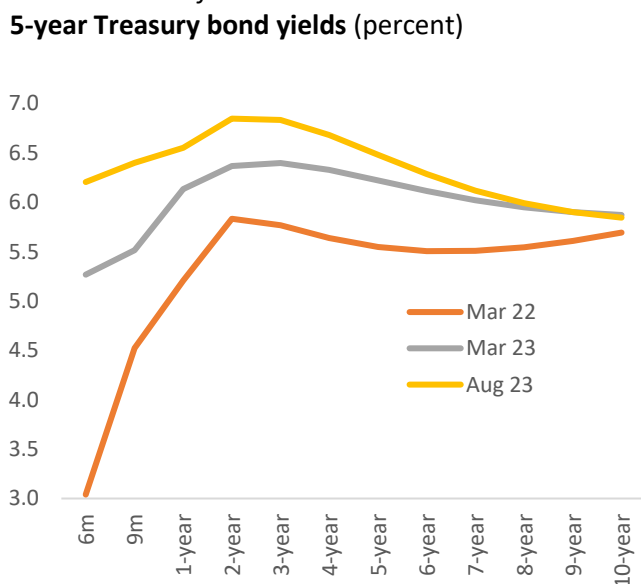
Tighter financing conditions are an increasing source of concern for Togo and other countries in the region. High global inflation triggered unexpectedly rapid and synchronous monetary policy tightening around the world, which has been of unprecedented scale in recent history (Figure 1.24) and has contributed to a significant worsening of global financial conditions. This resulting drag on activity in both advanced and emerging and developing economies is set to deepen in 2023 given the lags between changes in monetary policy and its economic impacts, and the fact that nominal and real interest rates are expected to continue to increase. In 2023, the BCEAO should continue to normalize its monetary policy, as it has been doing since June 2022, which will contribute to the gradual easing of inflationary pressures against a backdrop of sustained economic growth in the Union. Moreover, the return to an auction-based allotment system for liquidity injections by the BCEAO after two years of anti-crisis measures contributed to limiting the demand for sovereign debt securities by commercial banks in the region, which already have a high concentration of such securities in their portfolios. This has been reflected in a significant increase in bond yields since the start of 2023 (Figure 1.25). Furthermore, delayed fiscal adjustments in many WAMU countries are exacerbating fiscal vulnerabilities and are heightening competition between debt issuances in a tight regional bond market. Togo has already faced challenge in meeting its sovereign issuance targets in the first quarter of the year, as reflected in declining subscription rates (Figure 1.26). However, to give certain credit institutions more room to maneuver when subscribing to new issuances of government securities, the BCEAO decided in April 2023 to temporarily exclude government securities issued by WAMU countries from the calculation of certain prudential standards.

Figure 1.23: *Commodity prices have started to recede*



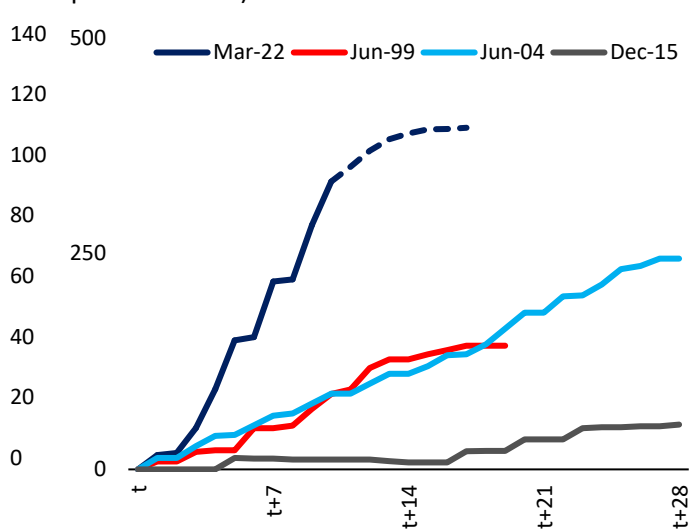
Source: World Bank

Figure 1.25: *Bond yields in Togo have increased since the start of 2023*



Source: World Bank

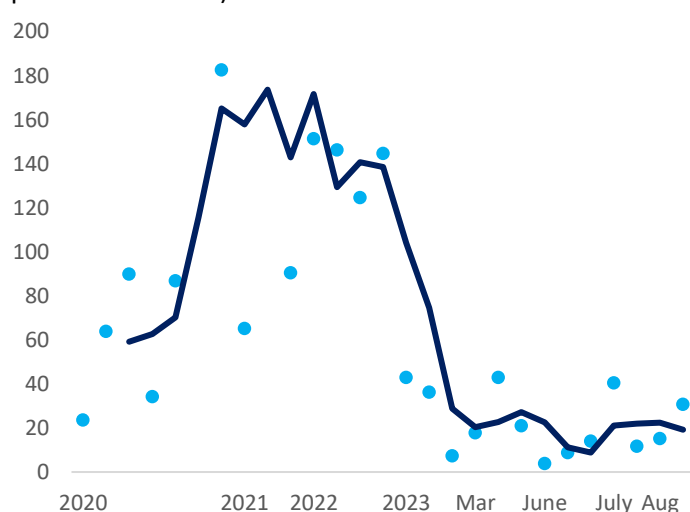
Figure 1.24: *Global interest rates have risen rapidly*
G7 interest rates during recent tightening cycles (basis point increase)



Source: World Bank

Figure 1.26: *Investors' appetite for Togo's debt has diminished*

Subscription rate on Togo's 5y issuance (percent of planned amounts)

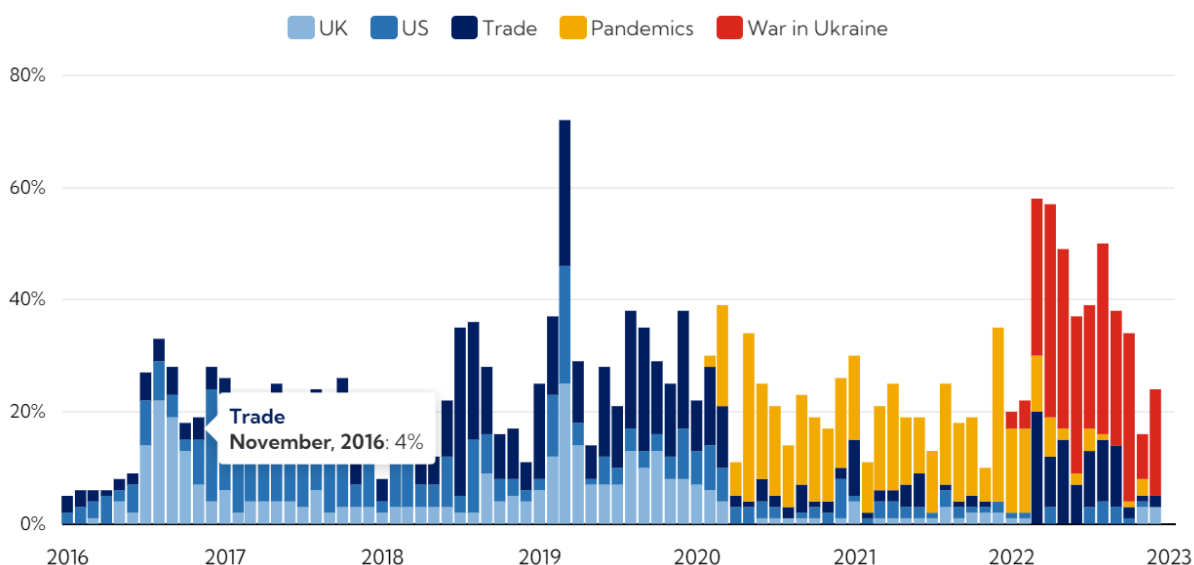


Source: World Bank

Fiscal consolidation measures should gradually reduce the budget deficit in coming years. The budget deficit is projected to decrease from 8.3 percent of GDP in 2022 to 5.8 percent in 2023, mostly due to scaled down capital spending. Tax revenues are expected to improve marginally in 2023, reaching 14 percent of GDP, mainly supported by a projected pickup in taxes on goods and services. The government announced or reconfirmed several tax incentives, including the suspension of installment payments in case of company's distress. Pressure on the government to continue subsidizing fertilizers, food and fuel at a time when fiscal space is already depleted could make infrastructure investments and other priority spending increasingly difficult to finance. Regional bond issuances are expected to remain a primary source of financing in 2023, despite increasingly tight financing conditions.

Growth is projected to stabilize in 2024, before recovering in 2025 as external headwinds start abating in the baseline scenario. With global demand predicted to remain subdued in 2024 and fiscal consolidation measures continuing amid tight financing conditions, growth in Togo is projected to remain broadly unchanged in 2024, at 5.2 percent, before recovering to 5.8 percent in 2025. Private investment and consumer spending are expected to be the main drivers of growth in coming years, while declining energy prices and rising external demand will support industrial and agricultural activity. In this context, the poverty rate could drop to 39.9 percent by 2025. Uncertainty related to the evolution of global demand, energy, food prices, financing conditions, security risks and climate change imply that the balance of risks to the outlook is tilted to the downside in the short term. The baseline scenario assumes that uncertainty associated with the conflict in Ukraine gradually recede while the tightening of global financing conditions and the slowdown in global trade remain orderly (Figure 1.27). Deeper disruptions to global trade, commodity, and financial markets could have a severe knock-on effect on a small, open, and relatively indebted country like Togo. Additional downside risks include rising security risks that could weigh on investment, trade, and public finances. Unfavorable weather conditions and the unavailability of inputs could negatively affect agricultural productivity, while the relative weakness of administrative capacity could limit the implementation of reforms and private investment.

Figure 1.27: The War in Ukraine remains a key source of global uncertainty
Source of global uncertainty (percent)

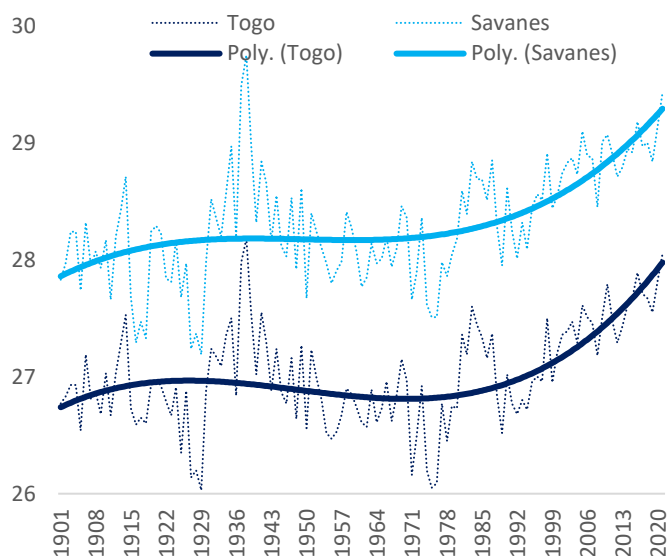


Source: Ahir, Bloom, and Furceri.

Weather related hazards are likely to increase over time. Mean annual temperature has increased by 1.1°C since 1960 in Togo, at an average rate of 0.24°C per decade (Figure 1.28). Average temperatures are projected to increase at a faster rate in the future, while rainfall may decrease or increase in parts of the country. Agriculture, energy, health, housing, water resources, and coastal areas are particularly vulnerable to these changes. Future droughts will likely impact crop production and water availability. Togo’s reliance on rain-fed agricultural and livestock contributes to a high degree of vulnerability to such shocks. Floods could also impact food security and infrastructure, and encourage communicable and water borne diseases, such as cholera and malaria, while sea level rise will threaten coastal settlements, for instance through salinization of fresh water sources at the coast and may also force migrations. Future climate change may worsen coastal erosion and lead to loss of goods and services, this is especially concerning as over 90 percent of the country’s industrial units are located in coastal areas.

Figure 1.28: Pressure from climate change is already observed in Togo

Temperatures in Togo (degree Celsius)



Source: World Bank

Medium to long-term growth could stay below pre-crisis norms in the absence of significant reforms. Without significant policy changes, actual and potential growth are likely to remain below pre-crisis averages and could be on a declining trend over the next decade. In fact, a status quo scenario where investment rates (both private and public), human capital accumulation, and labor force participation stays in line with pre-crisis average, potential growth could gradually moderate from an estimated 5.4 percent pre-crisis to about 5.0 percent by 2030 (Figure 1.29). The main drivers of this slowdown would be reduced demographic dividends, as the growth rate of the active age population would slow more rapidly than overall population growth (Figure 1.30). This scenario for potential growth is not a lower bound as it discounts possible long-term scars from the COVID-19 pandemic and the war in Ukraine on human and physical capital accumulation and productivity. If there is a persistent deterioration in learning outcomes, an increase in informality and a fall in investment rates, potential growth and poverty reduction efforts could be thwarted.

Under a moderate reform scenario, potential growth could stabilize around 5.5 percent during the second half of the decade. To stabilize Togo's growth a potential around 5.5 percent over the period 2025-30, reforms would need to deliver a combined increase in total factor productivity (TFP) and human capital gains by 0.2 percentage points per year, increases in female labor force participation by 1.5 percentage points by 2030 (to 50 percent), and an increase in the private investment rate by 5 percentage point of GDP (to 25 percent of GDP) over the same period. This is considered ambitious but realistic targets if reforms supported by the government's 2025 roadmap are implemented and continue over the period 2025-30, as they would extend pre-crisis upward trends (Figure 1.31). Increased female labor force participation would compensate for the projected slowdown in the active age population growth while capital deepening and total factor productivity would help lift potential growth from a dip around the late 2010s and into the COVID-19 pandemic (Figure 1.32). Such scenario would increase real income per capita levels by 29 percent from 2023 to 2030, a gain of 5 percentage points compared with the status-quo scenario. This would translate into an additional reduction in poverty rate to 31.2 percent by 2030, 1.6 percentage points below the status quo scenario.

Figure 1.29: Medium term growth prospects will largely depend on the reform momentum

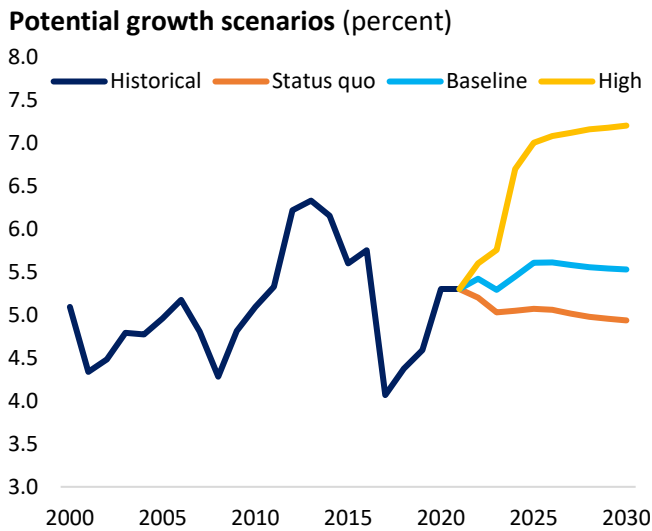


Figure 1.30: Demographic dividends will moderate in coming years

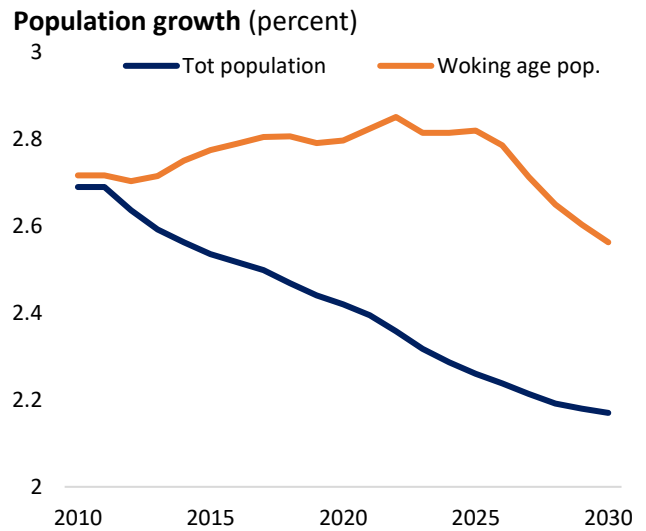


Figure 1.31: Women's labor force participation is key to growth and human capital accumulation

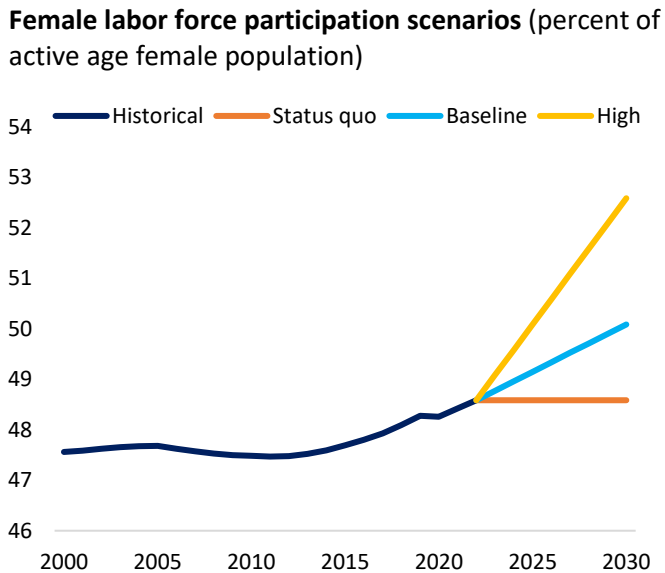
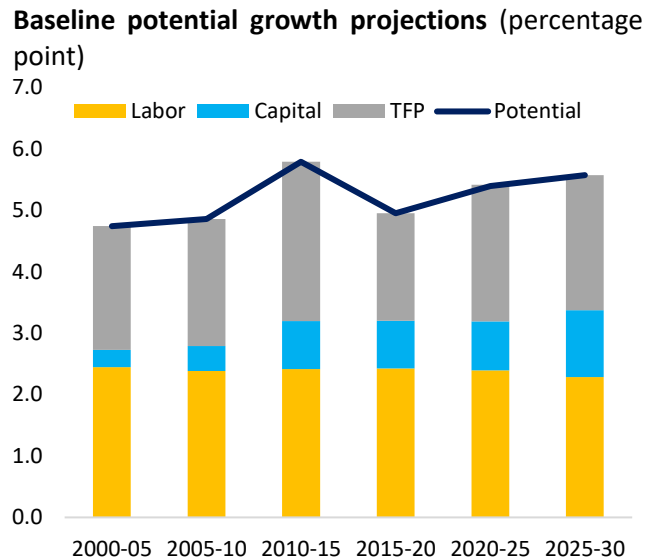


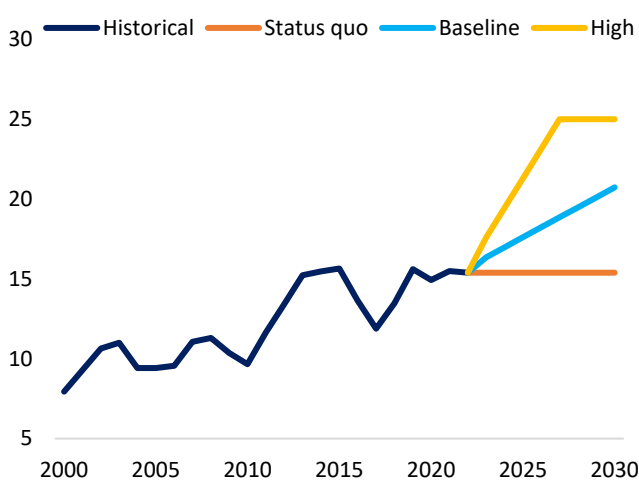
Figure 1.32: The baseline scenario entails potential growth hovering around 5.5 percent until 2030



Source: World Bank

Figure 1.33: A high growth scenario relies on a sharp uptick in private investment

Private investment rate scenarios (percent of GDP)



Source: World Bank

Figure 1.34: this would only have few precedents in recent history

Potential growth scenarios and historical performance (percent)

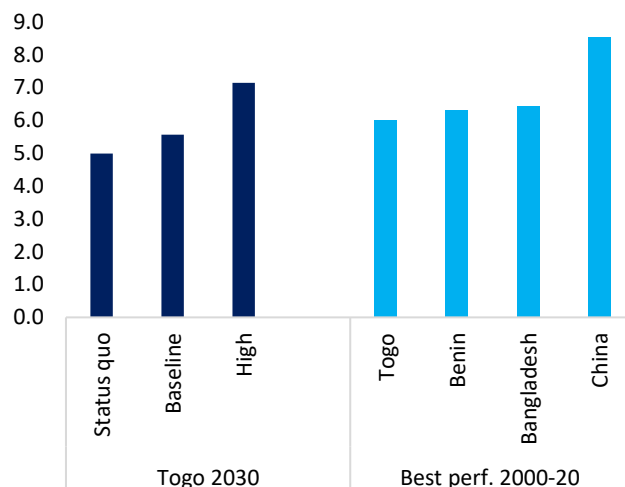
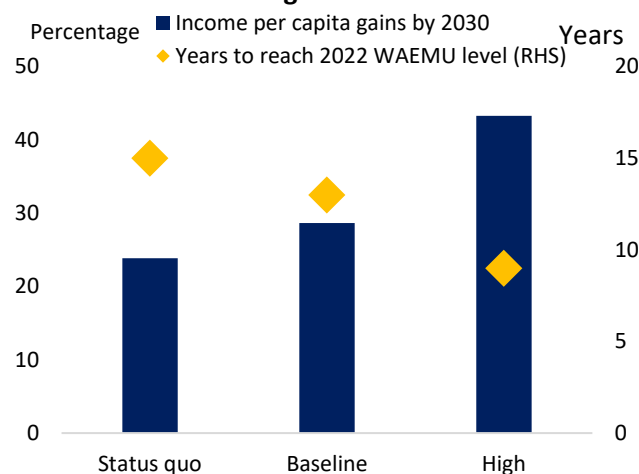


Figure 1.35: Convergence would be greatly accelerated...

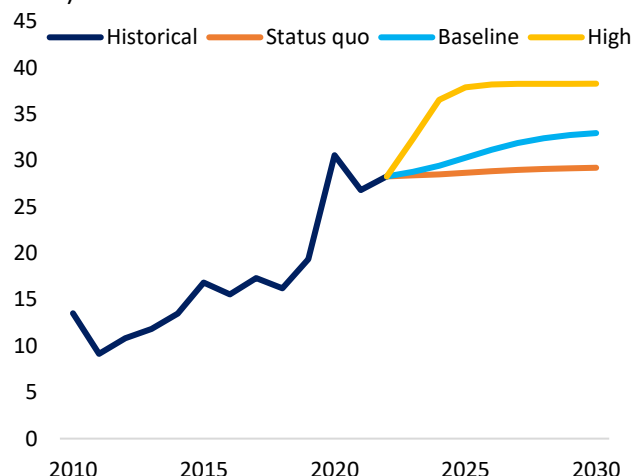
GDP per capita levels and years to converge to current WAEMU average



Source: World Bank

Figure 1.36: ...but financing requirements could increase indebtedness

External debt to GDP ratio scenarios (percent of GDP)



Under an intense reform scenario, potential growth could increase to 7 percent during the second half of the decade. An upper-bound scenario where Togo matches the largest ten-year increases private investment rates, TPF growth, human capital, and female labor force participation observed in Sub-Saharan Africa over the period 2010-19 period could raise Togo’s potential growth to 7.1 percent over the remainder of this decade (Figure 1.34). Such acceleration would be a significant accomplishment as it would surpass the best outcomes of aspirational peers like Benin or Bangladesh (Figure 1.35). However, dividends would be significant since real income per capita levels would increase in this scenario by 43 percent from 2023 to 2030, nearly doubling gains compared with the status quo scenario, and accelerating Togo’s convergence towards regional peers (Figure 1.36). The poverty rate would decline further to 27.3 percent in 2030, about 4 percentage points below the modest reform scenario. Without being out of reach, this would need a major shift in policy choices and coordinated efforts to build synergies across different reform areas. The African Continent Free Trade Agreement could be a catalyst for such transformational

reforms and help spur new opportunities for foreign direct investments. Estimates presented in Chapter 2 of this report suggest that the AfCFTA could potentially lead a near doubling of the FDI stock in Togo by 2035, providing a major boost to potential growth. The opportunity to mobilize additional financing to meet climate mitigation and adaptation objectives could also play a significant role in driving structural transformation while leveraging and preserving natural capital endowment. For instance, the development of voluntary carbon credit markets could help mobilize up to \$60 million of new investments every year and support more than 100,000 new jobs by 2030.

5. CONCLUSION AND POLICY OPTIONS

There are substantial opportunities to boost growth, inclusion, and resilience to shocks in Togo, requiring ambitious structural reforms and effective mobilization of public resources. Much of the acceleration in potential growth in the intense reform scenario presented in the previous section would come from increased labor force participation, efforts to boost productivity in agriculture, and rising private investment rates that would help untap the potential for sectors like logistics, trade, and light manufacturing, notably through implementation of the AfCFTA. At the same time, the welfare and resilience of more vulnerable populations needs to be strengthened by supporting their access to education and health care and improve their capacity to cope with shocks through more effective social protection systems. This is critical to increase human capital, which would allow sustained improvements in labor productivity and living standards. Finally, it will be critical to restore fiscal space following its rapid erosion in recent years. This notably requires increased revenue mobilization, more selective, targeted, and efficient spending, prudent debt management and efforts to limit exposure to contingent liabilities.

Selected reforms could help untap the potential of strategic sectors like agriculture, trade, and logistics. Reforms would be particularly important in the agriculture sector with a view to boosting productivity, speeding up structural transformation, and reducing poverty and fragility risks, which concentrate in rural and agriculture-dependent communities. This would require more effective and sustainable land management, better access to resilient seeds, fertilizers, irrigation, finance, and modern extension services, as well as the removal of trade barriers to improve access to inputs and untap the export potential of the agriculture and agribusiness sector. Developing value added logistics services would also help exploit Togo's potential as a regional trade hub and better leverage the port of Lomé, which is a substantial asset for the country. This would require improved transport service quality, the development of effective logistics facilities and trade facilitation reforms. More transversal reforms to stimulate private sector investment include legal and regulatory measures to improve the business climate, support greater competition, and ensure regulatory convergence with trading partners. Swift implementation of the African Continent Free Trade Agreement (AfCFTA) and of a voluntary carbon credit market could serve as a catalyst for foreign direct investments and structural transformation in Togo.

Improved access to electricity, particularly in rural areas, will play a central role in the spatial and economic transformation of Togo. A significant expansion of grid and off-grid electricity service in rural areas following a least-cost approach is central to achieving the government's objective of reaching a 75 percent electrification rate by 2025 while boosting the share of renewable energy production to 50 percent over the same period. This would mostly be achieved through a scaling up of solar capacity, later be complemented by hydropower generation. The ability to mobilize new investment in power generation and distribution will largely depends on the operational and financial viability of key players in the sector, notably the national utility CEET and bi-national transmission company CEB. Such return to viability would require reforms to improve cost-effectiveness and service quality as well as improved revenue collection. A new electricity tariff structure could contribute to this objective by differentiating fixed charges, power charges and energy charges to ensure that system costs are recovered fairly and efficiently, while supporting decentralized renewable energy solution, and minimizing tariffs for low-income households. This should go hand in hand with restructuring efforts at the CEET and CEB, following well defined performance objectives and accountability mechanisms.

Reforms to strengthen labor force participation and access to quality education, health care, and social protection is vital to boost human capital and untap Togo's growth potential. This notably points to the need for reforms aimed at increasing female labor force, including by preventing gender-based discrimination in access to labor

markets, education, health care, land ownership, finance, and digital services. Education and health sector improvements would require adequate levels of financing and better management of human and financial resources. In particular, recruitment of the civil servant workforce should be transparent and merit-based, while deployment and incentive policies as to address staffing imbalances across the country. The ability to deal with adverse shocks should also be strengthened through effective social protection and disaster response systems, which will benefit from the use of a unique social registry to improve targeting.

Efforts to restore fiscal space and improve public sector governance are foundational to support public service quality. While debt sustainability risks are currently moderate, several factors may lead to increased vulnerability in coming years, including a persistent tightening of financing conditions, the materialization of contingent liability risks, difficulties in raising public spending and in increasing fiscal revenues. Despite past improvements, domestic revenue mobilization remains too low to meet essential spending needs, which constrains service delivery in good times and the capacity to respond to shocks in bad ones. Although Togo is generally considered to have a streamlined tax structure, generous tax exemptions, and poor compliance have resulted in a narrow tax base. Tax policy measures should aim at reviewing and streamlining tax exemptions, accelerating the digitalization of tax declaration and payments, and improving tax administration. Rationalizing fuel, electricity and water subsidies could also help increase efficiency and equity and help rebuild fiscal spending for priority spending. These reforms could be accompanied by compensatory measures such as cash transfer to the most vulnerable. Fiscal risks should also be better managed by establishing a central unit in the Ministry of Economy and Finance responsible for their monitoring and by strengthening the management of public guarantees, commercial borrowing, and on-lending to SOEs.

Table 1. Main Macroeconomic Indicators

	2019	2020	2021	2022	2023	2024	2025
					Projections		
Income and Economic Growth							
Real GDP growth, at constant market prices	4.9	2.0	6.0	5.8	5.2	5.2	5.8
Real GDP per capita growth (annual %)	2.4	-0.4	3.5	3.4	2.8	2.9	3.5
GDP per capita- nominal (US\$)	848	875	964	930	1011	1079	1153
Private Consumption (% of GDP)	76.4	74.2	76.0	73.7	73.6	73.7	73.4
Gross Fixed Investment (% of GDP)	17.8	21.4	19.9	23.1	22.7	24.1	24.7
Gross Fixed Investment - Private (% of GDP)	14.6	12.1	11.7	13.3	14.6	16.9	18.7
Gross Fixed Investment - Public (% of GDP)	3.2	9.3	8.2	9.7	8.1	7.2	6.0
Money and Prices							
Consumer price inflation (annual %)	0.7	1.8	4.5	7.6	5.8	3.8	3.0
GDP deflator inflation (annual %)	0.0	1.8	2.5	5.0	5.7	3.6	3.3
Real Exchange Rate Index (2015=100)	96.9	117.9	116.3	111.2	116.0	118.6	119.9
Fiscal							
Overall Fiscal Balance- including Grants (% of GDP)	1.7	-7.0	-4.7	-8.3	-5.8	-4.1	-3.0
Primary Fiscal Balance (% of GDP)	3.8	-4.7	-2.5	-5.9	-3.4	-1.7	-0.7
Total Public Debt (% of GDP)	53.6	60.1	63.0	65.8	66.3	65.9	65.0
External Public Debt (% of GDP)	18.3	23.1	23.0	25.6	24.8	24.4	23.8
External Accounts							
Export Growth (% , yoy)	3.4	6.5	5.3	-1.1	4.2	4.3	6.8
Import Growth (% , yoy)	3.1	1.6	6.9	5.1	3.8	4.9	6.3
Current account balance (% of GDP)	-0.8	-0.3	-0.9	-3.0	-3.5	-3.4	-2.7
Population and Poverty							
Population, total (millions)	8.2	8.4	8.6	8.8	9.1	9.3	9.5
Population Growth (annual %)	2.4	2.4	2.4	2.3	2.2	2.2	2.2
Poverty rate (% of population)	45.1	45.1	45.3	45.0	44.0	42.0	39.9

Source: Ministry of Economy and Finance, BCEAO, INSEED, and World Bank

Table 2. Fiscal Accounts and Financing Needs

Percent of GDP	2019	2020	2021	2022	2023	2024	2025
Total Revenues and Grants	18.2	16.6	17.1	17.6	17.2	16.5	16.2
Tax Revenues	13.5	12.5	14.0	13.9	14.0	14.3	14.5
Taxes on Goods and Services	4.0	3.9	4.2	3.6	3.8	4.0	4.0
Direct Taxes	3.1	2.8	3.6	3.8	3.8	3.8	3.8
Taxes on International Trade	6.3	5.7	6.2	6.5	6.5	6.5	6.6
Non-Tax Revenues	1.8	1.6	1.3	1.2	1.1	1.0	1.0
Grants	3.0	2.5	1.8	2.5	2.1	1.2	0.7
Expenditures							
Total Expenditures	16.6	23.7	21.8	25.9	23.0	20.7	19.2
Current Expenditures	13.4	14.4	13.6	16.2	14.9	13.5	13.2
Wages and Compensation	5.2	5.5	5.4	5.0	5.4	4.6	4.4
Goods and Services	3.1	3.1	2.9	3.4	3.1	2.9	2.8
Interest Payments	2.1	2.4	2.2	2.4	2.4	2.4	2.3
External Interest Payments	0.2	0.3	0.3	0.4	0.7	0.7	0.5
Domestic Interest Payments	1.9	2.0	1.8	2.1	1.7	1.7	1.8
Current Transfers	3.0	3.4	3.1	5.3	4.0	3.6	3.8
Capital Expenditures	3.2	9.3	8.2	9.7	8.1	7.2	6.0
Fiscal Balance							
Overall Fiscal Balance (including grants)	1.7	-7.0	-4.7	-8.3	-5.8	-4.1	-3.0
Overall Fiscal Balance (excluding grants)	-1.3	-9.6	-6.5	-10.8	-7.9	-5.3	-3.7
Primary Fiscal Balance (including grants)	3.8	-4.7	-2.5	-5.9	-3.4	-1.7	-0.7
Primary Fiscal Balance (excluding grants)	0.8	-7.2	-4.3	-8.4	-5.5	-2.9	-1.4

Source: Ministry of Economy and Finance, BCEAO, INSEED, IMF and World Bank

CHAPTER II – TAPPING THE POTENTIAL FOR REGIONAL TRADE INTEGRATION

1. INTRODUCTION

As a small open economy, Togo's economic prospects are tightly connected to its ability to integrate with international markets. There is substantial empirical evidence that developing countries that are more integrated into the global trade system perform better in terms of economic growth and poverty reduction.¹ This potential is particularly significant in Togo given the size of its domestic market and geographical positioning. Moreover, trade diversification can help reduce exposure to external shocks and the risk of macroeconomic instability. Increased trade integration and diversification and a shift towards production activities that offer better earnings and jobs prospects is, thus, highly desirable to facilitate economic stability and sustainable development.

This chapter explores the untapped potential for greater regional trade integration in Togo. The first section provides a diagnostic of the overall trade performance by taking stock of the country's trade structure and comparative advantages. The second section then takes a closer look at regional trade integration and the importance of small-scale cross-border trade for Togo. The third section evaluates the potential benefits of the African Continental Free Trade Agreement and the contributions it can make to Togo's growth, employment, and poverty reduction agenda. Finally, the fourth section concludes and offers some recommendations for consideration by the authorities.

2. OVERALL TRADE STRUCTURE AND PERFORMANCE

Trade openness has declined over the last decade. During the second half the 2000s, the value of external trade in percentage of GDP was relatively high, surpassing most peers, notably thanks to high phosphate and cotton prices, as well as some trade diversion associated instability among neighboring countries. These factors have dissipated since the early 2010s, as visible in decelerating goods export revenues (Figure 2.1). Recently, the COVID-19 pandemic and the Russian invasion of Ukraine have further disrupted trade patterns, as global demand, values chains and commodity prices were significantly impacted. Following a post-COVID rebound in 2021, exports growth moderated again in 2022 as major trading partners were negatively impacted by combination of rising energy and food prices and tighter financing conditions. In addition, an intensification in trade protectionism, fragmentation of trade networks, and security concerns are also contributing to increased trade costs and slow trade growth.

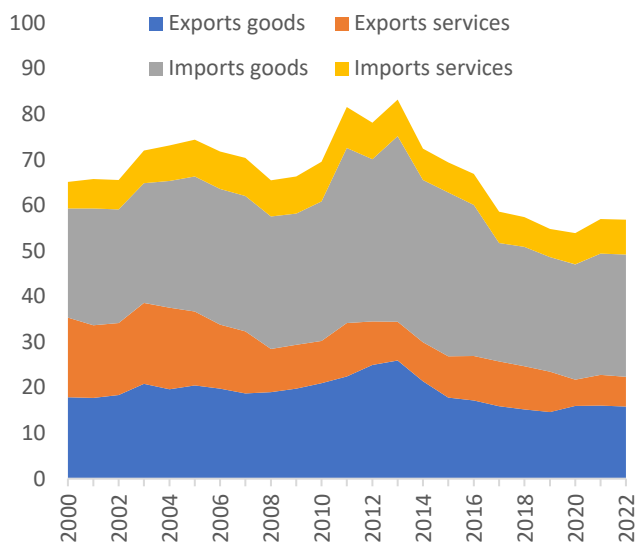
Togo's exports of goods are dominated by minerals, industrial and agricultural products. The main sources of export earnings are minerals (phosphate, calcium, clinker, cement), accounting for 22% of total goods exports between 2019 and 2021, followed by plastics, textiles and clothing, and agricultural products (soybeans, oilseeds, cashew nuts). In 2021, service exports accounted for around 31% of total exports, of which more than a third will be transport services.

In terms of geographical destinations, Togo's exports are relatively concentrated. Top 10 destination countries accounted for more than 74 percent of total exports in 2021 (table 2.1). Main export destinations remained broadly stable in the period leading up to the pandemic, with Sub-Saharan Africa accounting for about 51 percent of Togo's exports in 2019, followed by South Asia, East Asia and Pacific, and Europe and Central Asia (Figure 2.3). However, the onset of the COVID-19 crisis has triggered a re-orientation of trade flows, with the share of Sub-Saharan Africa in total exports dropping to 34 percent in 2021, reflecting the impact of border closures during the pandemic, as well as regional security challenges, slowing demand from neighboring countries and sharp swings in commodity prices.

¹ Empirical evidence tends to show that in the long-run, more outward-oriented countries register higher growth, see for instance Sachs and Warner, 1995; Edwards, 1998; Frankel and Romer, 1999; Dollar and Kraay, 2004; Freund and Bolaky, 2008, Chang et al., 2009; and World Development Report, 2020.

Figure 2.1: Trade openness has declined in Togo over the last two decades

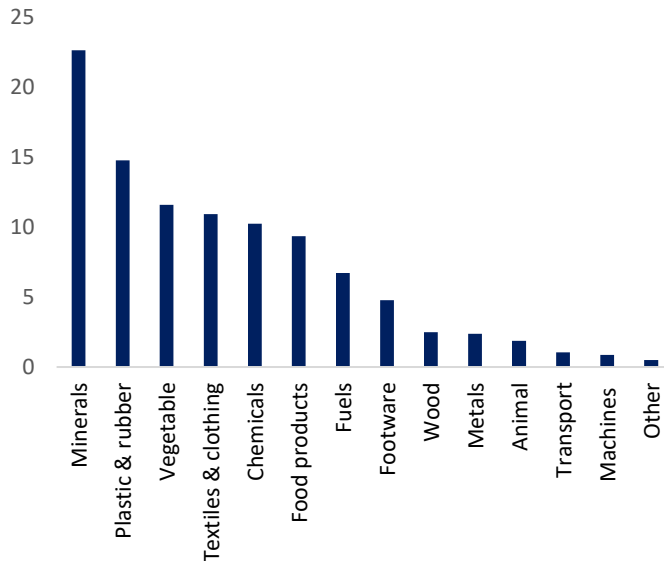
Ratio of exports plus imports to GDP (in percent)



Source: World Bank

Figure 2.2: Minerals, industrial and agricultural products are the main exports in Togo

Share of total exports between 2019 and 2021 (%)



Source: UN COMTRADE

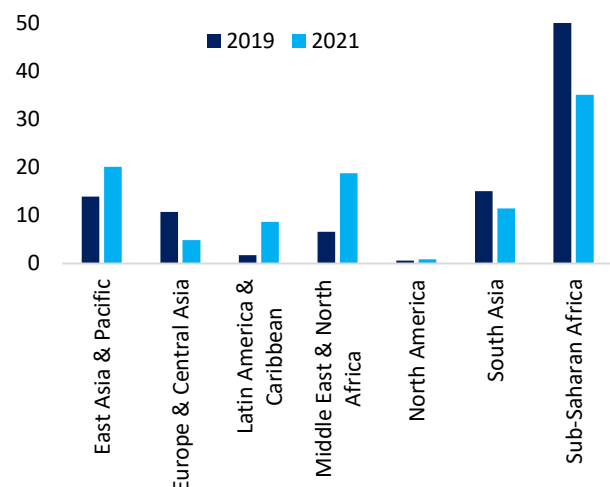
In terms of goods imports, fuels, capital goods, industrial and agricultural products dominate. Between 2019 and 2021, fuels accounted for around 14 percent of total imports, followed by machinery, transport equipment and chemicals, all of which exceeded the 11 percent mark (Figure 2.4). Although imports of agricultural products have fallen slightly over the past decade, they still account for 17 percent of imports, combining vegetables, food and animal products. East Asia remains by far the most important partner region for Togo's imports, but a shift towards South Asia has been observed since the start of the COVID-19 pandemic (figure 2.5).

In recent years, Togo continued to demonstrate robust comparative advantage in raw agriculture products, minerals, and cement, but lost positioning in foodstuffs, textile and clothing.² In fact, Togo reinforced revealed comparative advantages in vegetable and minerals over the period 2019-21 but apparently lost them in foodstuffs³ and textile over the same period (Table 2.2). The loss of RCA in foodstuffs and textiles may have resulted from the consequences of the COVID-19 pandemic including the closing of borders and disruptions to global value chains in those sectors, and could therefore be transitory as borders reopened and global demand recovered. Since the country has about one million hectares of arable land and an abundance of natural resources, agro-industries and small-scale manufacturing can create significant opportunities for job creation in both rural and non-rural areas and help Togo move from exporting just a few commodities to a broader, more diversified product portfolio. The development of such sectors requires robust transport infrastructures and logistics services, reliable energy provision, as well as access to inputs and technology that can help increase productivity and competitiveness.

² The revealed comparative advantage index (RCAI) is the ratio of a country's export share in a specific sector to the world's export share of that sector in total world exports. An RCAI above one means that the country's share of exports in that sector exceeds the global export share of the same sector in the same period, and the country is deemed to have a revealed comparative advantage in that sector. Despite its usefulness and ease of manipulation, the RCA focuses heavily on market shares as a measure of competitiveness and relies on the quality and availability of trade statistics.

³ A large share of agriculture and food exports occurs through small-scale cross-border trade (see section on regional trade integration), which is poorly captured in official trade statistics and, hence, not well reflected in the available RCA calculations.

Figure 2.3: Togo's exports are mostly destined to Sub-Saharan African countries
Share of total exports (percent)



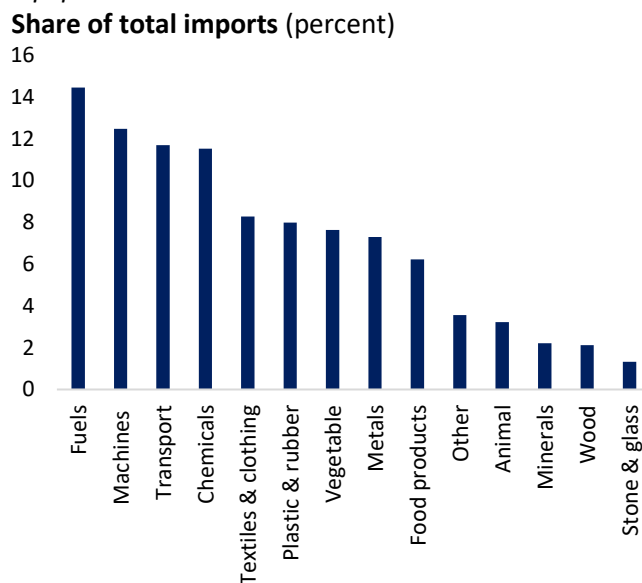
UN COMTRADE, accessed through WITS (mirror data).

Table 2.1: Top 10 destinations account for three quarters of total exports
Share of total exports (percent)

Rank	Country	Value	Share in %
1	Burkina Faso	141.19	17.16
2	Benin	98	11.91
3	Ghana	86.1	10.47
4	India	77.28	9.39
5	Mali	62.89	7.64
6	Cote d'Ivoire	54.42	6.62
7	Niger	50.41	6.13
8	Australia	31.89	3.88
9	Pakistan	30.4	3.7
10	Senegal	21.54	2.62

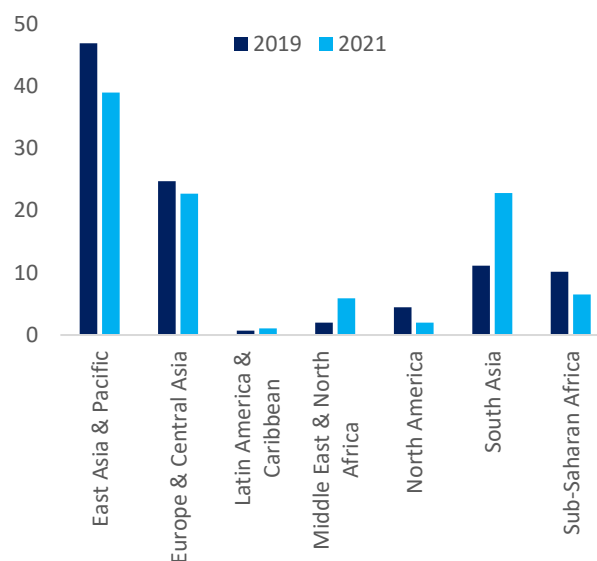
Source: UN COMTRADE, accessed through WITS (reported data).

Figure 2.4: Togo's goods imports are dominated by petroleum products, machinery and transport equipment
Share of total imports (percent)



Source: UN COMTRADE

Figure 2.5: East Asia remains by far the most important partner region for imports
Share of total imports (percent)



Source: UN COMTRADE

Table 2.2: Togo has robust comparative advantages in raw agriculture products and minerals

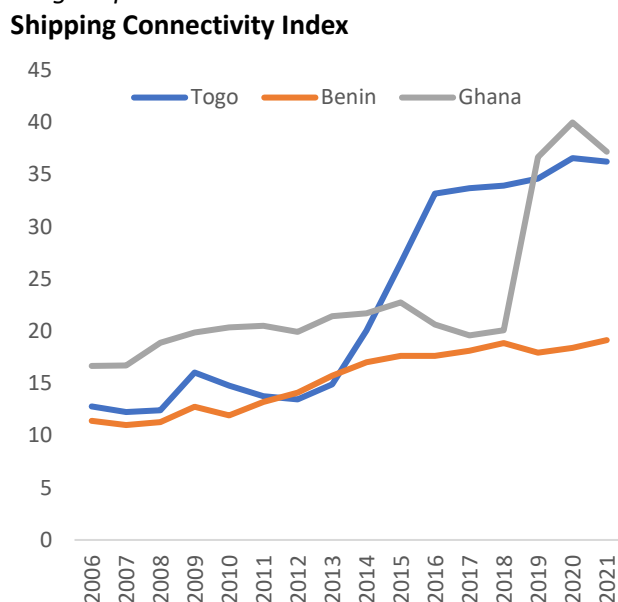
Group	Revealed Comparative Advantages – RCA index		
	Average 2002-2004	Average 2010-2012	Average 2019-2021
01–05 Animal	1.85	0.42	0.20
06–15 Vegetable	2.66	2.02	5.08
16–24 Foodstuffs	1.85	4.97	0.74
25–27 Minerals	3.65	1.99	4.24
28–38 Chemicals	0.17	0.24	0.15
39–40 Plastic/ Rubber	1.32	0.16	0.12
41–43 Hides, Skins	0.06	0.17	0.19
44–49 Wood	0.56	1.20	0.31
50–63 Textiles, Clothing	3.82	1.26	0.83
64–67 Footwear	0.83	0.58	0.69
68–71 Stone / Glass	0.42	5.07	1.96
72–83 Metals	0.80	0.56	0.55
84–85 Mach/Elec	0.03	0.02	0.01
86–89 Transportation	0.10	0.24	0.11
90–97 Miscellaneous	0.05	0.03	0.02

Source: UN COMTRADE, accessed through WITS (mirror data).

The Autonomous Port of Lomé is a valuable asset, but its potential is stifled by inadequate transport and logistics services and increased competition from other regional ports. In 2011, the port of Lomé was upgraded from a secondary port to a regional hub. It is the only deep-water port in West Africa that is capable of docking large ships for coastal shipping to other ports. Additionally, it is the leading platform for transshipment in the Gulf of Guinea, accounting for nearly 70 percent of trade handled at the port's terminals in 2021. According to the 2022 edition of Lloyd's List, which tracks the annual performance of ports for container traffic worldwide, the Port of Lomé remains within the top 100 busiest ports in the world. Between 2017 and 2021, the turnover of the Port of Lomé increased by 34 percent, from 26 billion CFA francs to 35 billion CFA francs. The port expansion has had a positive impact on trade integration since Togo has now a Shipping Connectivity Index of 36.2 (UNCTAD, 2021), more than twice its score in 2012 (and the current score of the Port of Cotonou in Benin). However, investments in the port of Tema in neighboring Ghana has boosted its Shipping Connectivity Index above that of the Port of Lomé since 2019 (Figure 2.6). According to the World Bank's 2022 ranking of cargo ports (The Container Port Performance Index), the port of Lomé has a slightly higher index than the Port of Cotonou, but remains well below that of Tema, its direct competitor. Its performance remains also below that of regional leaders such as the port of Dakar, and the port of Conakry. The quality of logistics services and road infrastructure are important constraints stifling the Port's potential, notably to improve connectivity with the hinterland and domestic exports transit trade.

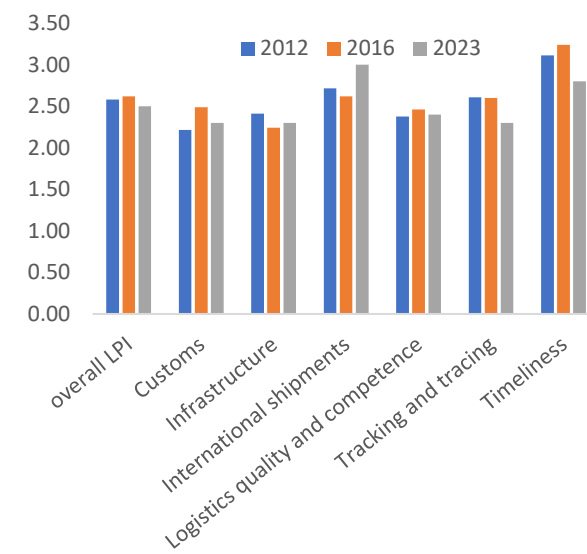
Despite recent improvements, Togo's logistics performance remains weak. A lack of adequate transport infrastructure and logistics raises the cost of trade for firms and limit the country's ability to effectively participate in international trade and value chain integration. According to the Logistics Performance Index (LPI), Togo has seen a stagnant performance in the quality of logistics services since 2012 (Figure 2.7). Togo ranks 97th out of 139 countries according to the LPI in 2023, below Benin (66th), above Burkina Faso (123rd) and on a par with Ghana (97th). The timeliness and price of international shipment register relatively good scores in Togo, customs and border management and trade and transport-related infrastructure continue to lag. Major options to improve the logistics performance include efforts to improve trade and transit facilitation services, professionalize carriers, reduced waiting times between loading, streamlining and securing access to freight, and decreasing processing time at borders, checkpoints, and terminals (port and interior).

Figure 2.6: The Port of Lomé helped boost shipping connectivity but the Port of Tema in Ghana has caught up since then



Source: UNCTAD, World Bank

Figure 2.7: Togo’s logistics performance remains weak, particularly due to infrastructure quality
Togo’s Logistics Performance Index (LPI)



Source: World Bank

3. REGIONAL AND SMALL-SCALE CROSS-BORDER TRADE

Enhanced trade with regional partners could be an important driver for growth and poverty reduction in Togo.

The country shares long land borders with its neighbors, notably Ghana and Benin, and is a major conduit for connecting land-locked Burkina Faso and Niger to the seaport of Lomé. Also, while the per capita GDP of Togo (US\$ 973 in 2021) is below the average income in Sub-Saharan Africa (US\$ 1,626), there are several large, relatively well-off economies located in its proximity, particularly Ghana (US\$ 2,363), Cote d’Ivoire (US\$ 2,549) and Nigeria (US\$ 2,065). Hence, there are large potential markets for Togolese goods in the region, as well as important import sourcing possibility for consumer products and production inputs.

The Togolese Government has tried to tap into this regional trade potential by joining several regional integration arrangements. Togo is a member of ECOWAS, (Economic Community of West African States), WAEMU (West African Economic and Monetary Union), two partially overlapping regional agreements that have a Common External Tariff (CET), and CEN-SAD (Community of Sahel–Saharan States) and applies the corresponding integration policies. Partly as a result of these integration efforts, a large share of Togo’s exports is oriented to continental partners. In 2021, 72 percent of Togo’s officially recorded non-petroleum exports went to African trading partners.⁴ However, on the import side, only 14 percent of all imported non-petroleum merchandise originated in Africa.

a. Structure of regional trade

Total non-petroleum trade with African partners in 2021 amounted to US\$ 677 million in terms of exports and US\$ 318 million in imports. 98 percent of exports and 54 percent of these continental imports occurred with partners within ECOWAS, highlighting the importance of geographical proximity and preferential market access for

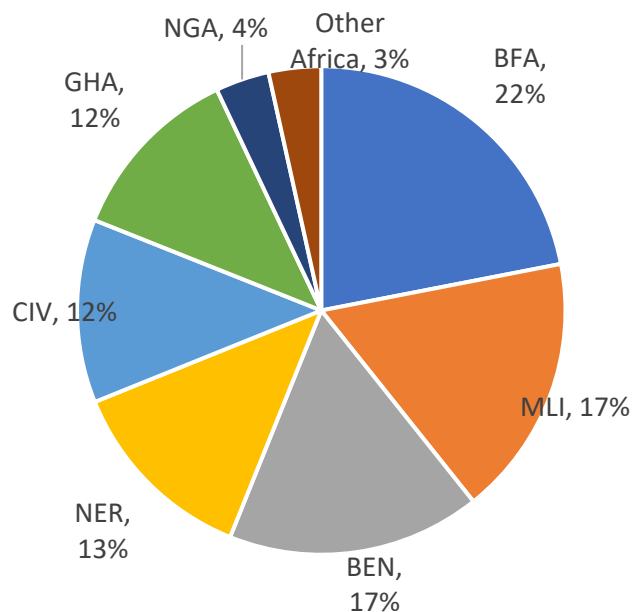
⁴ Export values are based on official Togolese statistics, as reported to UN COMTRADE. Sometimes, it is desirable to complement official export statistics by mirror data from partner countries. However, some of Togo’s most important regional trading partners, notably Ghana, have not updated their data submissions to COMTRADE in recent years, so that using mirror data would have resulted in either incomplete or outdated analysis.

trade relations. The most important export destinations were Burkina Faso, Mali, and Benin (Figures 2.8 and 2.9). On the import side, the most important source countries within the region were Ghana, Nigeria, and Egypt. Regional exports are somewhat more concentrated than regional imports, with the top-3 export destinations accounting for 56 percent of all non-petroleum exports, while on the import side, the top-3 partners provided just over half of all of Togo's regional non-petroleum imports in 2021. In terms of traded products, Togo's non-petroleum exports to the region are concentrated in food and beverages (including palm oil), rubber and plastics (notably plastic bags), and transport equipment (including motorcycles) (Figures 2.10 and 2.11). The most important regional non-petroleum imports in 2021 were food and beverages (including fish), non-metallic minerals (including cement), and chemicals.

Official trade flows likely underestimate the importance of regional trade. First, not all the Customs offices in Togo (and its neighbors) are electrified and computerized. This means that import and export declarations of traders might still be submitted in paper-form, and the collected trade information might not or only with a substantial delay be transmitted to the Statistical Office for processing and reporting. The lack of connectivity is particularly affecting small Customs stations in remote locations, who mainly handle regional trade. Conversely, the main Customs posts in Lomé that deal with overseas trade are well equipped and fully computerized. As a result, the available trade statistics fail to capture important regional trade flows and are biased towards non-regional trade. Second, official statistics are not able to properly account for small-scale cross-border trade (SSCBT). Many individuals transport small quantities of merchandise across the border to take advantage of differences in product availability and price. These small-scale imports and exports are exempt from Customs duties and other border formalities, and while the individual consignments might be small, the aggregate value of these unrecorded imports and exports can be substantial and reach or exceed the official, Customs recorded trade between countries (Bouët, Pace & Glauber, 2018; World Bank, 2018).

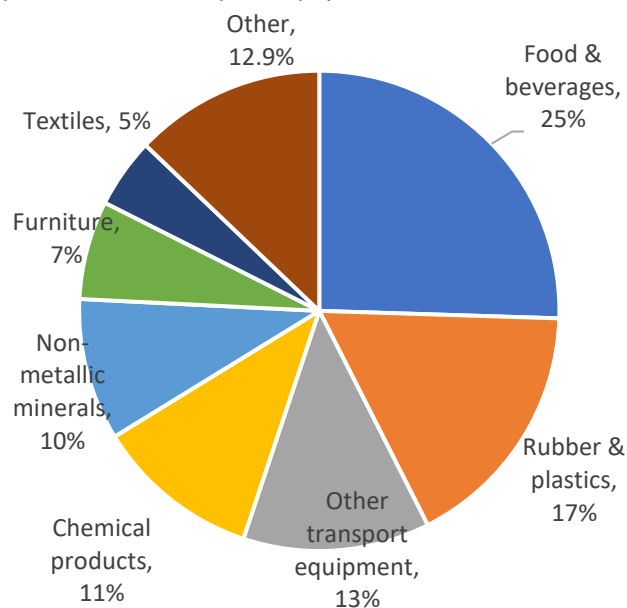
Small-scale cross-border trade (SSCBT) is different from smuggling and is not necessary illegal. While some part of SSCBT occurs through unmonitored, insecure crossings along porous borders, most small-scale traders pass the border in close proximity to an official crossing (Karkare et al., 2021). They are, hence, within reach and under the control of the immigration, Customs and other border services. SSCBT is also not necessarily a strictly informal activity, as small-scale traders may have officially registered their business (Bouët, Cissé & Traoré, 2020).

Figure 2.8: 98 percent of Togo's non-petroleum export toward Africa occurred with partners within ECOWAS



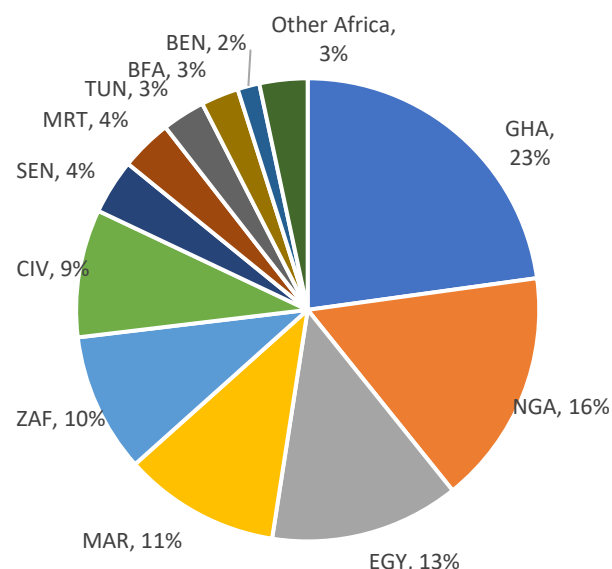
Source: UN COMTRADE, accessed through WITS, 2021.

Figure 2.10: Togo's non-petroleum exports to Africa are dominated by food and beverages, rubber and plastics, and transport equipment



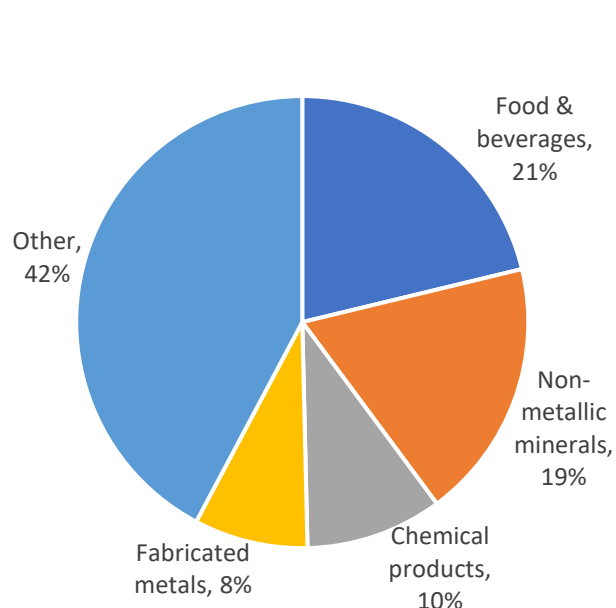
Source: UN COMTRADE, accessed through WITS, 2021.

Figure 2.9: 54 percent of Togo's non-petroleum import toward Africa occurred with partners within ECOWAS



Source: UN COMTRADE, accessed through WITS, 2021.

Figure 2.11: Togo's non-petroleum imports from Africa are dominated by food and beverages, non-metallic minerals, and chemicals



Source: UN COMTRADE, accessed through WITS, 2021.

b. Importance of small-scale cross-border trade

Togo's Statistical Office recently conducted a survey to assess the prevalence and nature of SSCBT in Togo. The data collection was undertaken over a two-week period and covered 75 border crossings along Togo's borders with Ghana, Benin, and Burkina Faso (INSEED, 2019).⁵ Customs offices were present at some but not at all crossing points. A total of 6,450 small-scale traders were interviewed. The trade values obtained during the study period were extrapolated to yield annual SSCBT estimates.

Table 2.3: *Non-recorded small-scale cross-border trade represents a significant share of Togo's exports to neighboring countries*

Non-recorded small-scale cross-border export in 2019 (million US\$ / percent)				
Partner	Customs-recorded	SSCBT (non-recorded)	Total exports	Share of non-recorded SSCBT
Benin	107.77	51.15	158.92	32.2%
Burkina Faso	130.05	27.68	157.73	17.5%
Cote d'Ivoire	73.16	0.02	73.18	0.0%
Ghana	72.73	15.11	87.84	17.2%
Nigeria	21.12	1.79	22.91	7.8%

Source: INSEED (2019) & UN COMTRADE, accessed through WITS.

Table 2.4: *... and of imports as well*

Non-recorded small-scale cross-border imports in 2019 (million US\$ / percent)				
Partner	Customs-recorded	SSCBT (non-recorded)	Total imports	Share of non-recorded SSCBT
Benin	7.47	12.59	20.05	62.8%
Burkina Faso	6.33	1.87	8.20	22.8%
Cote d'Ivoire	28.85	0.00	28.85	0.0%
Ghana	49.01	8.66	57.67	15.0%
Mali	0.13	0.01	0.14	6.1%
Niger	0.12	0.00	0.12	1.2%
Nigeria	45.03	0.01	45.03	0.0%
Not known	..	0.14

Source: INSEED (2019) & UN COMTRADE, accessed through WITS.

The findings confirm the importance of SSCBT for regional trade. Total SSCBT exports were estimated to reach about 9.5 percent of official gross exports in 2019, 99 percent of which were non-petroleum exports. On the import side, total SSCBT was estimated to amount to about 1.7 percent of official gross imports, 70 percent of which being non-petroleum imports.⁶ SSCBT is particularly commonplace on Togo's border with Benin, with SSCBT representing 32 percent of all exports (Customs-recorded plus SSCBT) and 63 percent of all imports (Tables 2.3 & 2.4). In other words, SSCBT imports from Benin exceeded officially recorded imports by a substantial margin.

Naturally, most SSCBT occurs between Togo and its direct neighbors (Benin, Burkina Faso, and Ghana), even though some small-scale transactions also take place as transit trade with partners further afar. Overall, about a quarter of Togo's trade with its three direct neighbors occurs through SSCBT (23 percent of exports, 27 percent of

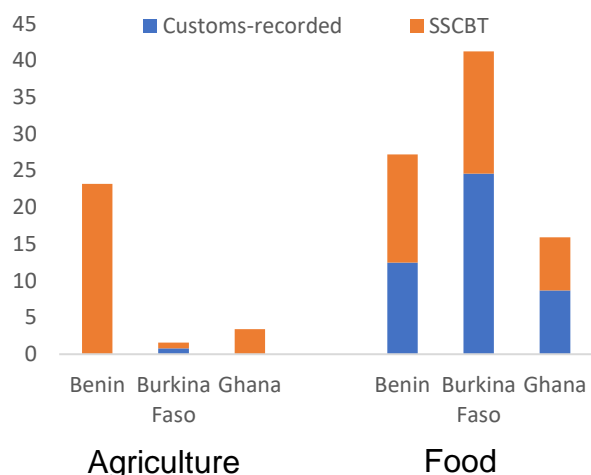
⁵ It is possible that INSEED survey findings may be biased due to short time coverage, seasonality, and inaccurate reporting by respondents.

⁶ The survey results are likely underestimating trade in petroleum and related products, as a large share of this trade might occur through insecure cross-border pathways that were not monitored by the enumerators.

imports). However, these aggregate averages hide some marked differences in the importance of SSCBT across product categories.

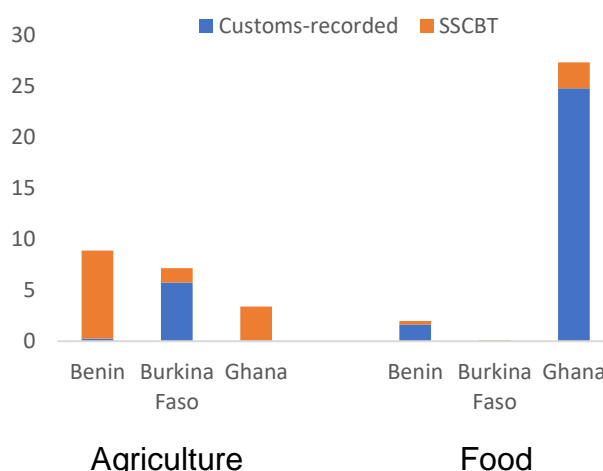
The survey on SSCBT undertaken clearly demonstrates the importance of small-scale trade in Togo. The Customs-based trade statistics significantly underestimate regional imports and exports, so that policy makers do not get accurate information on the magnitude of trade flows when only looking at the official import and export data. Decisions on food security, food industry investment, or macroeconomic management might, thus, be based on incomplete and perhaps misleading information. Some other African countries, notably Rwanda and Uganda, have put into place and operated permanent SSCBT monitoring systems for several years now, and have found the additional information obtained to be highly valuable (World Bank, 2020a). Also, accurate tracking of intra-African trade flows will be crucial for the effective implementation of the African Continental Free Trade Agreement (UNECA, 2021).

Figure 2.12: SSCBT accounts a significant share of agriculture and food exports to neighboring countries
(Million US\$)



Source: INSEED (2019) & UN COMTRADE, accessed through WITS.

Figure 2.13: ...but generally less so for imports (Million US\$)



Source: INSEED (2019) & UN COMTRADE, accessed through WITS.

4. POTENTIAL GAINS OF THE AFRICAN CONTINENTAL FREE TRADE AGREEMENT

To further advance regional trade integration, Togo has joined the African Continental Free Trade Agreement (AfCFTA), which aims to reduce barriers to the movement of goods, services, capital and labor, develop a regional regulatory framework, and eventually establish a continent-wide customs union. Togo signed the AfCFTA on March 21, 2018, ratified it on January 9, 2019, and deposited the ratification documents on April 2, 2019. Implementation of the AfCFTA is under way since May 2019, although some important provisions, such as those concerning rules of origin, remain to be finalized.

The AfCFTA involves reforms in a broad range of policy areas. The agreement is scheduled to reduce tariffs among member countries and foster improvements concerning trade facilitation and services trade. It will also harmonize trade-related regulatory measures, such as sanitary and phyto-sanitary measures and technical barriers to trade. Moreover, it goes beyond most previously existing subregional economic integration agreements in Africa by envisaging regulatory reform and alignment of policies concerning investment and intellectual property rights protection.

The AfCFTA is expected to generate substantial benefits for its members. The Agreement could boost intracontinental exports by 81 percent and exports to non-African countries by 19 percent over the next decade

and a half (World Bank, 2020b). As a result, average real incomes in Africa could increase by 8 percent if members succeed in lowering barriers to entry and harmonizing regulations that make it possible to draw in higher levels of trade and foreign direct investment (Echandi et al., 2022). Furthermore, if countries were to align their policies on investment, competition, e-commerce, and intellectual property rights, the income gains could strengthen further. Benefits from tariff liberalization is expected to be modest compared with the impact lowering non-tariff barriers, notably through trade facilitation measures and regulatory harmonization. Naturally, the effects will differ across countries, depending on their economic structure and trade policy situation. The following discussion highlights the likely impacts from different AfCFTA-related policy reforms in Togo and examines how the country could maximize its benefits.

c. Import duties

The AfCFTA sets the path for the gradual elimination of tariffs on 90 percent of all tariff lines over a period of 10 years.⁷ For a further 7 percent of tariff lines, countries can implement tariff reductions over a longer period. And for the remaining 3 percent of tariff lines, tariffs can be maintained, provided that the value of trade in these goods does not exceed 10 percent of the value of total trade with Africa.

In general, the impact of the tariff reductions on trade volumes, production, and income in African countries will be moderate (World Bank, 2020b), because the effectively applied tariffs on intraregional – often preferential – trade are already low and the intraregional trade volumes are modest. However, in Togo, a substantial share of exports is destined for African markets, including partners outside ECOWAS. Hence, the implementation of the AfCFTA tariff liberalization will progressively enhance market access for Togolese exporters and thereby foster output, employment, and income. Because of Togo's stronger than average exposure to African export markets, the impact of tariff liberalization will be more substantial than the 22 percent increase in exports that are expected by 2035 for the continent overall (World Bank, 2020b).

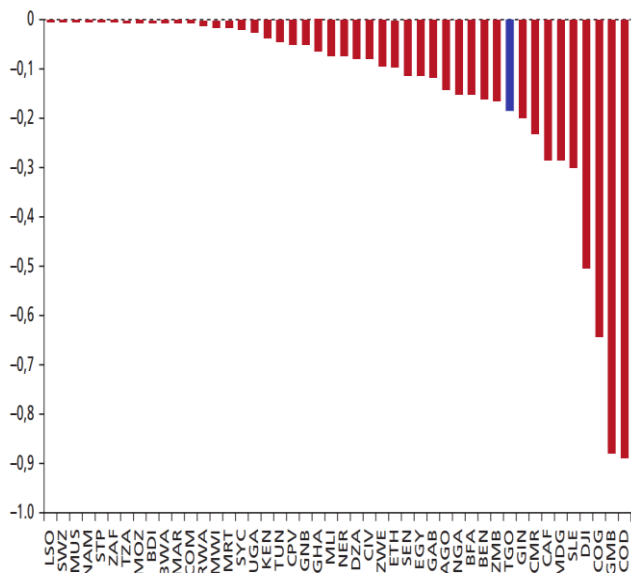
On the import side, the impact of AfCFTA-related tariff reforms will be attenuated by Togo's low share of imports from non-preferential partners in Africa. As a result, the benefits in terms of lower consumer prices for imported goods and lower costs of imported production inputs will be modest.

the impact on revenues for the government is expected to be small. About 19 percent of Togo's total governmental revenues are derived from trade taxes, which is a share that is higher than in many other African countries. However, the AfCFTA tariff reforms only concern the gradual reduction of import duties on intra-regional trade on "non-sensitive" products (three percent of all tariff lines concerning "sensitive" products can be excluded from the reductions). Also, the reforms do not affect revenues from import taxes other than tariffs, such as value-added taxes, excise duties and other Customs charges. Simulations using the World Bank's Tariff Reform Impact Simulation Tool (TRIST) suggest that Togo might lose less than 0.2 percent of its annual tax revenues as a result of the AfCFTA-related import tariff reductions (Figure 2.14). TRIST findings are derived assuming that only tariff reforms would be undertaken and without considering the growth-enhancing impact of these and other trade reforms. In the medium to long run, there is expected to be significant additional economic activity and trade due to the removal of non-tariff tariff barriers, the implementation of trade facilitation measures and other regulatory reforms (see below). These dynamic impacts of the AfCFTA will lead to tax revenue increases that would more than offset the losses from tariff reform.

⁷ Five years for non-LDCs, and 15 years for the G6-countries that face particular development challenges (Ethiopia, Madagascar, Malawi, Sudan, Zambia, Zimbabwe).

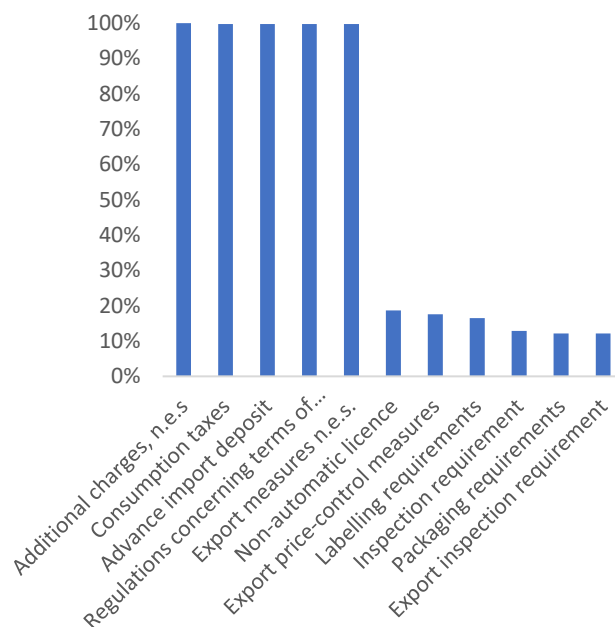
Figure 2.14: AfCFTA should not have a significant direct impact on customs revenues in Togo

Change in customs revenues due to tariff liberalization



Source: World Bank (2020b).

Figure 2.15: Many tariff lines in Togo are subject to non-tariff measures



Source: UNCTAD TRAINS database, latest data available.

d. Non-tariff measures and trade facilitation

The AfCFTA is seeking to establish a single African market by progressively eliminating Non-tariff barriers (NTBs) through the streamlining of regulations, by fostering competition, and by pursuing policy reforms to facilitate trade. These regulations generally contribute to legitimate policy objectives but can become barriers to trade if applied in a cumbersome or overly restrictive manner. Figure 2.15 provides an overview of some non-tariff measures that have been applied in Togo.

Available evidence suggests that NTBs have a bigger influence on trade than tariffs (Unctad & World Bank, 2018). Hence, reducing NTBs and related trade costs is particularly important in order to reap the benefits from trade integration. Togo has substantially advanced on the implementation of trade facilitation measures. Between 2015 and 2021, Togo improved its trade facilitation and paperless trade implementation score from 39 percent to 59 percent, placing the country into the top-10 among Sub-Saharan African countries (United Nations, 2022). Togo thereby scored better than average in West Africa and on the Continent in most of the eight implementation areas (Figure 2.16).

One important set of NTBs is related to the substantial delays and informal payment solicitations encountered by transporters at border crossings and internal checkpoints. Along the Lomé-Ouagadougou transport corridor, UEMOA’s Observatoire des Pratiques Anormales reported an average of 17.6 control points per transporter in 2020 and average waiting times of 154.1 minutes. The average amount of illicit payments at control points amounted to FCFA 8,598 (US\$ 14).

Concerning small-scale traders, a survey undertaken in 2019 as part of the Trade Facilitation West Africa program asked 142 small-scale traders operating on the Lomé-Ouagadougou transport corridor about desirable ameliorations of trading conditions at the border. The top priority for traders was improved safety (42 percent), followed by simplified procedures and processes (37 percent), and better access to finance (13 percent). These

findings are to some extent similar to those obtained by INSEED (2019) in its SSCBT-survey, where insecurity and the threat of theft (32 percent) was reported by traders as their most serious concern, followed by procurement difficulties (23 percent), harassment from officials (15 percent), cumbersome procedures (7 percent), and poor transport infrastructure (7 percent).

Analysis by the World Bank (2020b) suggests that the implementation of the AfCFTA can further reduce barriers to trade and trade costs. In particular, model-based simulation assumes that half of the existing NTBs can be removed through the Agreement and that further complementary reforms will be undertaken to reduce delays and trade costs in support of the WTO's Trade Facilitation Agreement. Under these conditions, the gains from NTB and trade facilitation reform would clearly outweigh the gains from tariff liberalization. By 2025, comprehensive AfCFTA implementation would lead to real income gains of 7 percent on average, with intra-African exports expanding by 81 percent, and imports by 102 percent. Increased trade would be observed across all sectors, with manufacturing (110 percent export growth) and agriculture (49 percent) experiencing the largest trade expansion, while mining (8 percent) and services (14 percent) would see more modest export increases.

e. Foreign direct investment

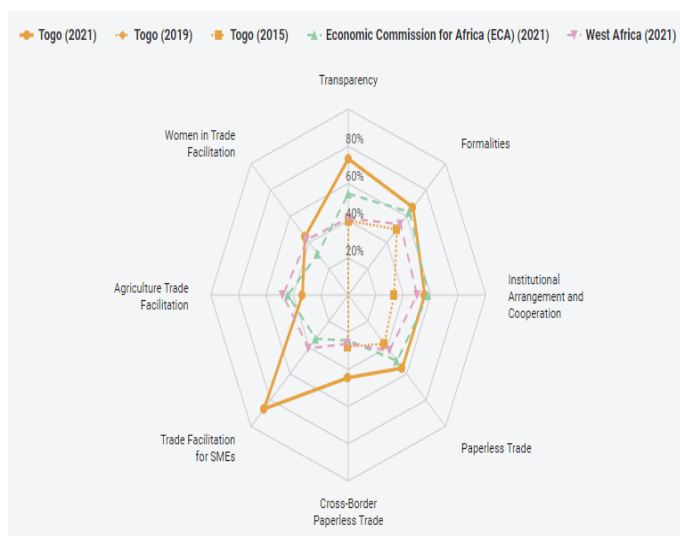
Countries with small domestic markets, such as Togo, tend to be at a disadvantage compared to larger economies when trying to attract foreign direct investment (FDI). In this context, the AfCFTA provides a welcome opportunity for Togo to further integrate with neighboring countries, so as to create a more attractive location for foreign investors and the capital and managerial know-how that they bring to their host country. The AfCFTA will also encourage competition and improve the business environment for FDI. In particular, the Protocol on Trade in Investment and the Protocol on Services will further reassure foreign investors about the profitable prospects of their engagement.

Estimates using a gravity model suggest that the AfCFTA could generate substantial investment inflows into Africa (Echandi et al., 2022). Under the assumption that the AfCFTA would generate FDI inflows similar to the average African preferential trade agreement – the broad scenario – the FDI stock in Togo would almost double (plus 95 percent) by 2035. If the implementation of the AfCFTA were more ambitious and also concern provisions on investment, competition, and intellectual property rights – the deep scenario – the expected inward stock of FDI in Togo would be more than a third higher and increase by 135 percent over the 2017-baseline. Similarly strong inflows of FDI would be expected for other countries in West Africa (Figure 2.17).

African countries are also expected to increase their own cross-border (bilateral) FDI by between 54 percent (the AfCFTA FDI broad scenario) and 68 percent (the AfCFTA FDI deep scenario). For Togo, the outward FDI stock is expected to grow somewhat more modestly, respectively, by 35 percent and 44 percent (Echandi et al., 2022).

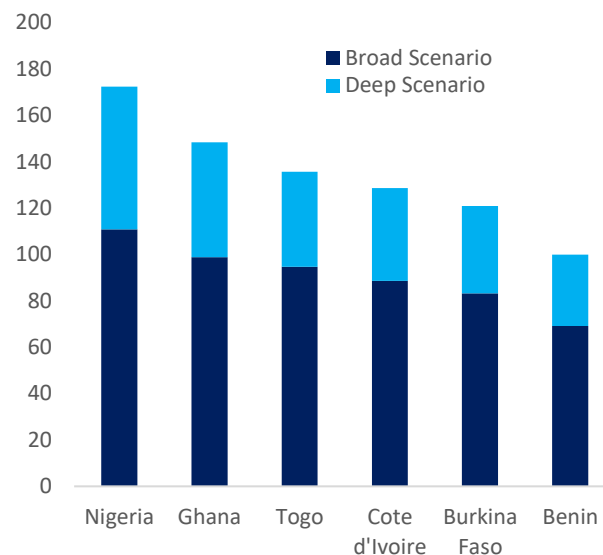
Further country-specific analysis of the AfCFTA seems desirable to better inform policy makers and civil society of the prospective impacts of the Agreement. Analytical work is currently under way within the World Bank to quantify the effects of AfCFTA implementation in Togo using a computable general equilibrium model. In addition to the information presented above, this work will make it possible to obtain quantitative estimates of the integration impacts on output, trade, income, and employment at the sectoral level. The findings will, thus, provide information on which economic activities will expand more or less rapidly as continental integration proceeds and enable policy makers to design complementary policy measures to accompany the growth and adjustment process.

Figure 2.16: Togo improved trade facilitation and paperless trade between 2015 and 2021
Trade facilitation index



Source: untfsurvey.org

Figure 2.17: AfCFTA is expected to increase the inward stock of FDI in Togo by up to 135 percent
Estimated changes in inward FDI (Percent)



Source: Echandi et al. (2022)

5. CONCLUSION AND POLICY OPTIONS

Better global and regional trade integration remains a prominent avenue to economic development and poverty reduction for Togo. The country has a strong resource base and revealed comparative advantage in agriculture and food products and could use this potential to diversify and upgrade its exports of processed food products and better integrate in to international supply chains. Yet, developing a stronger agri-food sector requires substantial improvements in access to key production inputs, such as energy and water in rural areas. The development of light manufacturing, including textile and clothing, could also create significant opportunities for job creation in both rural and non-rural areas and help Togo move from exporting just a few commodities to a broader, more diversified product portfolio. The development of such sectors requires robust transport infrastructures and logistics services, reliable energy provision, as well as access to inputs and technology that can help increase productivity and competitiveness.

As part of the efforts to support export diversification, improving road networks and connectivity while better leveraging the Port of Lomé will be critical. The Lomé-Ouagadougou-Niamey corridor provides a useful basis and provides for simplified border clearance procedures and requirements. By further improving connectivity with the hinterland, domestic exports and transit trade are likely to increase, contributing to the economic development of secondary towns along the corridor. Implementing a single transit guarantee, eliminating controls on the corridor, and interconnecting customs with neighboring countries would help leverage its gains. Security concerns along the corridor will also need to be addressed to prevent disruptions to trade with the hinterland and continue to support private investments for its development. Improving road maintenance management could make a significant contribution to boosting market access for agriculture products, while better management of the Port of Lomé, including the review of port concessions, institutional arrangements, and rules for storage and unbundling, would help accelerate industrialization. Efforts to improve trade and transit facilitation services, professionalize carriers, and reduced processing time at checkpoints and terminals (port and interior) could also help boost Togo's logistics performance.

The implementation of the AfCFTA could offer sizable benefits for Togo. Trade is going to expand, fostering stronger domestic output, employment, and income. These economic gains will accrue gradually, as regional trade under AfCFTA is progressively liberalized and the respective regulatory reforms are advanced. In this context, additional analysis by the Togolese authorities and their development partners on the sectoral impacts of AfCFTA implementation would be very welcome. Such assessments would help to better inform policy makers about priorities for policy measures to fully exploit the benefits and attenuate the adjustment costs of continental integration.

One important cross-sectoral policy initiative concerns intensified efforts to reduce NTBs, notably with respect to Customs and administrative requirements, to help move merchandise more easily within and across borders. Advancing trade facilitation is a key priority in this context. For example, all Customs posts should be equipped with information technology systems that support core clearance processes and that officials and traders are capable of using effectively. Also, given the importance of SSCBT for regional trade, the authorities should address impediments that small-scale traders currently face including lack of access to capital, transport and knowledge of existing regulation and procedures, and consider establishing a permanent monitoring mechanism for small-scale trade to improve the information on SSCBT available to decision makers. AfCFTA will support small-scale cross-border trade by implementing simplified trade regimes (STR) and reducing tariffs on intra-African trade. STR simplifies clearing goods through Customs, so small-scale cross-border traders can benefit from import duty exemptions.

Finally, upholding the provisions of the AfCFTA and adhering to the implementation timetable will be crucial for the success of the Agreement. Active compliance with the agreed provisions will help to reduce trade policy uncertainty and build credibility with partner countries and private sector traders and investors. Key agreed provisions of the AfCFTA include the elimination of tariffs and non-tariff barriers to trade in goods, liberalization of trade in services and cooperation in custom matters among others.

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